

**FINANCIAL MANAGEMENT:
Audit of the Department of the Treasury's
Office of District of Columbia Pensions'
Fiscal Year 2000 Financial Statements**

OIG-01-092

September 21, 2001



Office of Inspector General

The Department of the Treasury

SECTION I –
REPORT OF THE OFFICE OF INSPECTOR GENERAL

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Section II – Department of the Treasury's Office of District of Columbia Pensions' Fiscal Year 2000 Financial Statements and Supplemental Information

September 21, 2001

To the Acting Assistant Secretary for Management:

We audited the Department of the Treasury's Office of District of Columbia Pensions' (D.C. Pensions) Consolidating Balance Sheet as of September 30, 2000, and the related Consolidating Statements of Net Cost and Changes in Net Position, and the Combining Statements of Budgetary Resources and Financing, for the year then ended.

Results in Brief

This report presents our unqualified opinion on these financial statements. Our audit disclosed no reportable conditions involving the internal control and its operation and no reportable instances of noncompliance with laws and regulations.

Management's Responsibilities

Management is responsible for:

- Preparing the financial statements in conformity with generally accepted accounting principles.
- Preparing the Management Discussion and Analysis (MD&A) of D.C. Pensions and the Supplemental Information.
- Establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the benefits and related costs of internal accounting policies and procedures.

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- Complying with laws and regulations applicable to D.C. Pensions.

Scope of Audit

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin No. 01-02). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our responsibility is to express an opinion on the financial statements based on our audit. We believe that our audit provides a reasonable basis for our opinion.

In planning and conducting our audit of D.C. Pensions' financial statements for the year ended September 30, 2000, we considered its internal control over financial reporting by obtaining an understanding of the design of D.C. Pensions' internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

In addition, with respect to internal controls related to performance measures reported in the MD&A, we obtained an understanding of

the design of significant internal controls relating to the existence and completeness assertions as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of D.C. Pensions' compliance with: (1) certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts; and (2) certain other laws and regulations, specified in OMB Bulletin No. 01-02. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to D.C. Pensions. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Results of Audit

Opinion on the Financial Statements

In our opinion, D.C. Pensions' financial statements present fairly, in all material respects, its assets, liabilities, and net position as of September 30, 2000, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended, in conformity with generally accepted accounting principles.

MD&A and Supplemental Information

The MD&A and Supplemental Information are not required parts of the financial statements but are required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and Supplemental Information. However, we did not audit

the MD&A and Supplemental Information and express no opinion on them.

Internal Control

Internal control is a process, effected by D.C. Pensions' management and other personnel, designed to provide reasonable assurance that the following objectives are met:

- Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition; and
- Compliance with applicable laws and regulations - transactions are executed in accordance with: (1) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (2) any other laws and regulations, identified in OMB Bulletin No. 01-02.

Because of limitations inherent in any internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that internal control may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. As defined in OMB Bulletin No. 01-02, reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control, that could adversely affect the Office of D.C. Pensions'

ability to meet the internal control objectives as defined above. Material weaknesses are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses.

Compliance with Laws and Regulations

The results of our tests of compliance with laws and regulations disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*, and OMB Bulletin No. 01-02.

* * * * *

We have reviewed our results with D.C. Pensions' management and have incorporated their comments as appropriate. The response to our audit report from the Director, Office of D.C. Pensions is included in Appendix 1 of this report.

This report is intended solely for the information and use of the management of D.C. Pensions, the Department of the Treasury, OMB, the U.S. General Accounting Office, and the Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is available to the public as a matter of public record.

Should you or your staff have any questions, you may contact me at (202) 927-5430, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits, at (202) 927-5789. We appreciate the cooperation and the courtesies extended to our staff.

William H. Pugh
Deputy Assistant Inspector General for Financial Management
and Information Technology Audits
April 6, 2001



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

MAY 08 2001

MEMORANDUM FOR WILLIAM H. PUGH
DEPUTY ASSISTANT INSPECTOR GENERAL FOR
FINANCIAL MANAGEMENT AND INFORMATION
TECHNOLOGY AUDITS

FROM: Mary Beth Shaw *MB Shaw*
Director, Office of D.C. Pensions

SUBJECT: Draft Audit Report on the Department of the Treasury
Office of D.C. Pensions' Fiscal Year 2000 Financial Statements

We have reviewed your office's draft audit report on the Department of the Treasury Office of D.C. Pensions' FY 2000 financial statements. We have no comments on the report. I appreciate the efforts of you and your staff in conducting the audit. Please extend my appreciation to the audit team.

Financial Audits Division

Mike Fitzgerald, Director
Marie Maguire, Audit Manager
Joe Dennis, Lead Auditor
Kimberly Fleming, Lead Auditor
Saundra Feeney, Auditor
Kenneth Harness, Auditor
Donna Joseph, Auditor
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The Department of the Treasury

Acting Assistant Secretary for Management
Acting Chief Financial Officer
Director, Office of D.C. Pensions
Director, Office of Accounting and Internal Control
Manager, Funds Management Branch, Accounting Services
Division, Administrative Resource Center, Bureau of the
Public Debt

Office of Management and Budget

Treasury Budget Examiner

United States Senate

Chairman, Subcommittee on Treasury, Postal Service and
General Government, Committee on Appropriations
Ranking Member, Subcommittee on Treasury, Postal Service
and General Government, Committee on Appropriations
Chairman, Committee on Governmental Affairs
Ranking Member, Committee on Governmental Affairs

United States House of Representatives

Chairman, Subcommittee on Treasury, Postal Service and
General Government, Committee on Appropriations
Ranking Minority Member, Subcommittee on Treasury, Postal
Service and General Government, Committee on
Appropriations
Chairman, Committee on Government Reform
Ranking Minority Member, Committee on Government Reform

United States General Accounting Office

Comptroller General of the United States

SECTION II –

**DEPARTMENT OF THE TREASURY’S
OFFICE OF DISTRICT OF COLUMBIA PENSIONS’
FISCAL YEAR 2000 FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

OFFICE OF D.C. PENSIONS
Departmental Offices, Department of the Treasury

FY 2000 MANAGEMENT'S DISCUSSION AND ANALYSIS

Mission Statement

The mission of the Office of D.C. Pensions is to implement the Balanced Budget Act of 1997, Public Law 105-33 (111 Stat. 251), as amended, and to make timely and accurate Federal benefit payments associated with the District of Columbia Retirement Programs for police officers, firefighters, teachers and judges.

I. Introduction and Background

A. *Statutory Basis for the D.C. Pensions Program*

The Balanced Budget Act of 1997, as amended (the Act), provides that the Secretary of the Treasury (the Secretary) shall assume certain responsibilities for the District of Columbia pension system, including investing fund assets and funding pension benefits. The Act was intended to relieve the District of Columbia Government (the District) of the burden of unfunded pension liabilities transferred to the District by the Federal Government in 1979.

The Department of the Treasury's (Treasury) Office of D.C. Pensions, within the Departmental Offices, administers the Secretary's responsibilities under the Act. The Office of D.C. Pensions is responsible for benefits administration, procurement, information systems, actuarial valuations, investments and financial reporting.

To varying degrees, Treasury is responsible for three District retirement programs:

- Police Officers' and Firefighters' Retirement Plan;
- Teachers' Retirement Plan; and
- Judges' Retirement Plan.

The Federal Government is responsible for paying police officers', firefighters', and teachers' benefits earned through June 30, 1997. The District is responsible for paying benefits earned after June 30, 1997. The Federal Government is responsible for paying judges' benefits earned both before and after June 30, 1997. All benefit payments that are the responsibility of the Federal Government under the three District retirement programs are referred to herein as Federal Benefit Payments. Benefit payments for service accrued after June 30, 1997, to which an individual is entitled under the District's Replacement Plan, are referred to as District Benefit Payments.

The Act established three funds in Treasury to be the source of Federal Benefit Payments:

- District of Columbia Federal Pension Liability Trust Fund (the Trust Fund) -- to pay benefits to retired police officers and firefighters, and teachers and administrative expenses.
- Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund) -- to pay benefits and administrative expenses after the Trust Fund has been depleted.
- District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund) -- to pay benefits and administrative expenses for the Judges' Retirement Plan.

The Act was enacted August 5, 1997, with an effective date of October 1, 1997. To provide for administration of the retirement programs during the interim benefits period (from October 1, 1997, until the date Treasury selects a trustee or assumes the responsibilities of the trustee) a Memorandum of Understanding (MOU) was signed as of September 29, 1997, by the Treasury, the District, and the District of Columbia Retirement Board (DCRB).

In October 1998, technical and clarifying amendments to the Act were enacted in the Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999 (Pub. L. 105-277) and the District of Columbia Courts and Justice Technical Corrections Act of 1998 (Pub. L. 105-274). The legislative changes provided the Secretary with needed flexibility in the areas of benefits administration and reimbursement to the District and other entities for administrative expenses. Pub. L. 105-277 also imposed a requirement that the assets of the Trust Fund be invested in public debt securities.

An amended and restated MOU, dated as of April 2, 1999, provided clarification and direction for the asset valuation, segregation, and liquidation processes. It also provided for continued administration of the retirement programs by the District on Treasury's behalf during the interim benefits period. Additionally, Amendment No.1 to the First Amended and Restated MOU Concerning Interim Administration of Retirement Programs, dated September 28, 2000, provided for the DCRB to reimburse Treasury annually on an estimated basis for District Benefit Payments paid by Treasury on the District's behalf.

B. Organizational Structure

Between 1997 and mid-1999, the D.C. Pensions Program involved many offices in Treasury, including the Offices of: Domestic Finance, Economic Policy, Tax Policy, General Counsel, and Management. Because of statutory deadlines, the most pressing issues during this time period were in the investment area under the purview of the Office of Domestic Finance. After the assets were valued, segregated, and liquidated, the Office of Domestic Finance's responsibilities were substantially completed. In June 1999, pursuant to Treasury Order 102-23, responsibility for the D.C. Pensions Program was transferred to the Assistant Secretary for Management and Chief Financial Officer.

In December 1999, by revised Treasury Directive 13-20, the Assistant Secretary for Management and Chief Financial Officer established the Office of D.C. Pensions and delegated to the Office Director all duties, powers, rights, and obligations vested in the Assistant Secretary by Treasury Order 102-23, "Delegation of Authority With Respect to Retirement Programs for District of Columbia Employees." The Director is responsible for establishing and implementing operating procedures and policies and for carrying out Treasury's responsibilities with respect to the retirement programs for District of Columbia police officers, firefighters, teachers, and judges.

The D.C. Pensions Program is staffed in a matrix management arrangement comprised of the core program office within the Office of Management and supported by other Treasury offices that provide expertise in the range of areas encompassed by the statute. The Office of Domestic Finance is responsible for cash management advice and investment policy direction to the Bureau of the Public Debt (BPD). The Office of the General Counsel provides legal analysis. The Office of D.C. Pensions is responsible for investments, benefits administration, actuarial valuations, procurement, information systems, and financial reporting. As of September 30, 2000, thirteen Treasury positions were funded from the Trust and the Judicial Retirement Funds.

In addition, the Office of D.C. Pensions contracts for support in accounting, actuarial services, information systems development, benefits administration, and for expert advice on pension policy issues.

II. Pension Funds

A. Purposes of the Funds

The Trust Fund was established to make Federal Benefit Payments and pay necessary administrative expenses for the Police Officers and Firefighters, and Teachers Retirement Plans. The Trust Fund is not a typical pension fund in that it is not a perpetual fund and does not receive employee and employer contributions. See Exhibit 1.

The Supplemental Fund accumulates funds to finance Federal Benefit Payments and necessary administrative expenses for the Police Officers and Firefighters, and Teachers Retirement Plans. Pursuant to the Act, the funds held in the Supplemental Fund are not available for use until the funds in the Trust Fund have been depleted. See Exhibit 2.

The Judicial Retirement Fund accumulates funds to finance Federal Benefit Payments and necessary administrative expenses of the Judicial Retirement Fund. See Exhibit 3.

B. Financial Highlights

The financial highlights of the pension funds for FY 2000 are:

Pension Funds FY 2000 Financial Highlights			
	Trust Fund	Supplemental Fund	Judicial Fund
	(\$ millions)		
Receipts:			
Interest	\$ 173.5	\$ 34.4	\$ 4.6
Reimbursements from DCRB	\$ 2.9		
Asset Liquidation	\$ 3.4		\$ 0.1
Deposits from General Fund		\$181.7	\$ 5.5
Deposits/Contributions from Plan Participants			\$ 0.7
Net Investments (9/30/00)	\$3,037.0	\$857.5	\$82.3

C. Investment

In FY 1999, Treasury contracted with State Street Bank & Trust Company (“State Street”) for asset custodial services and with Bankers Trust Company (now Deutsche Bank) for liquidation services for the assets transferred to Treasury from the District. Liquidation of the assets was substantially completed by September 30, 1999, except for a de minimis amount that could not be sold within that timeframe due to illiquidity or other unusual characteristics of the assets. The Deutsche Bank contract was closed out in May 2000.

In February 2000, State Street transferred \$3.2 million to BPD. In June 2000, State Street transferred \$282,000, and in July 2000, State Street transferred an additional \$12,336. In each case the funds were immediately invested in nonmarketable public debt securities. The State Street contract remains open pending the write-off or sale of a few illiquid securities, which is expected to occur during the first half of FY 2001. The State Street contract will subsequently be closed.

A second State Street contract was awarded in August 2000 to handle receivables related to reclaims of foreign taxes withheld on previously earned investment income. The reclaims are for fixed amounts in European Currency Units. Treasury expects the reclaims to be paid during FY 2001. Upon receipt of the proceeds, State Street will transfer the assets to the trust funds at BPD and this contract will be closed.

Treasury is required to make annual payments from the General Fund of the Treasury to the Judicial Retirement Fund and the Supplemental Fund to amortize the original unfunded liabilities of the retirement programs over 30 years; the net experience gains or losses over 10 years; and any other changes in actuarial liabilities over 20 years, and, amounts necessary to fund covered administrative expenses for the year. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program. Consistent with the Act, these deposits are made in September each year and are invested in nonmarketable public debt securities with maturities consistent with the expected pension liabilities.

The Supplemental Information section of this report contains additional information on the investment activities of the D. C. Pensions Program.

III. Benefits Administration Activities

Treasury's benefits administration activities consist of a broad variety of functions including:

- Ensuring that District retirees and beneficiaries (or payees) receive benefits that are accurately calculated;
- Identifying and resolving policy and legal issues;
- Preparing and issuing regulations;
- Conducting program risk assessments, program reviews and special studies of retirement processing operations of the District's Office of Pay and Retirement Services (OPRS) --- OPRS continues to make benefit determinations and process Federal Benefit Payments under an agreement with Treasury;
- Assisting OPRS and District personnel offices with quality customer service delivery;
- Assisting OPRS in implementing appropriate internal control and quality control measures;
- Providing Federal funds to the District on required dates for annuity payments;
- Developing and implementing a replacement pension system;
- Assisting the District in improving pension processes; and
- Assisting the District in improving non-pension operations (e.g., personnel procedures) that affect pension benefits administration.

A. *Staff Support*

Within Treasury, a benefits administration staff assigned to the Office of Personnel Policy, Office of the Deputy Assistant Secretary for Human Resources, works full time on D.C. Pensions matters. Treasury also has an agreement with the Office of Personnel Management (OPM) to serve as Treasury's benefits administration advisor. Under the agreement, OPM provides additional staff support and advice on benefits administration matters.

B. *Retirement Program Policy and Operations*

Improvements in the District's benefits administration business practices are expected to be addressed through implementation of new practices required by the replacement automated pension system, which is addressed in Part IV, "Information Systems Activities." Other improvements, such as the quality of retirement records provided by the District's personnel

offices and the adequacy of procedures used to verify continued eligibility for disability and death benefits, are being addressed separately by the Treasury and OPM.

The major benefits administration activities undertaken during FY 2000 include the following.

- Significant staff time was devoted to Treasury's efforts to develop a replacement pension system.
- In June 2000, the OPM benefits advisor team conducted a study of OPRS and the various District personnel offices to identify potential areas for work flow and customer service improvements. This study contains recommendations on ways to improve the quality of data (presently a significant impediment to the accurate and timely calculation of benefits) and customer service to annuitants. The study report will be published in FY 2001.
- Treasury and OPM have developed a comprehensive action plan to address the needed benefits administration activities. The action plan includes resolution of all outstanding policy issues.
- Treasury concluded that debt collection, waiver, and appeals policies should be established by regulation. Regulations, modeled on OPM's regulations in parts 835, 841, and 845 of Title 5 of the CFR, are being drafted.
- Benefits administration staff participated in the Conference Room Pilot (CRP) of the commercial-off-the-shelf (COTS) product that has been purchased to replace the District's pension system. The CRP consisted of discussions with users of the replacement system to validate the functional requirements and determine the gaps between the requirements and the COTS product.
- Previous reviews suggested that errors were made in the calculations of judges' annuities. Treasury reviewed all 63 retired judges and survivors case files and annuity calculations and drafted a paper detailing the errors and potential remedies. After regulations covering the appeals process are published, Treasury will consider appropriate corrections of the errors that have been identified.
- Treasury and the OPM benefits advisor team reviewed certain District pension laws and related current business practices. Treasury formulated legal opinions on: (1) computation of interest for the purchase of service credit; (2) COLAs on child survivor annuities under the Teachers plan; (3) COLA provisions of judges' initial retirement annuity; (4) early retirement reduction issues; (5) judges' rights to purchase service credit and applicable interest for installment payments; (6) applicability of creditable service earned under the FERS Federal retirement program; (7) debt collection policies and practices; and (8) creditable military service earned after 1956 that is also subject to Social Security.

C. Retirement Program Participants

In FY 2000, Federal benefits were paid to approximately 13,150 retirees and survivors. Another 8,580 active members of the retirement plans have accrued Federal benefits. The participants and beneficiaries are as follows:

	Police Officers and Firefighters	Teachers	Judges	Total
Active Members:	4,131	4,387	62	8,580
Retired Members and Beneficiaries:	7,811	5,273	63	13,147
Vested Terminated Members:	0	25	0	25
	<hr/>	<hr/>	<hr/>	<hr/>
Total:	11,942	9,685	125	21,752

Data Source: Deloitte & Touche actuarial valuation as of 10/1/00.

D. Benefit Payments

Total Federal benefits and refunded employee contributions were \$410.5 million during FY 2000. These payments are expected to be \$400-\$500 million per year for the next several years.

The Bank of America serves as Treasury's financial agent to facilitate funding Federal Benefit Payments. The District provides payroll services to make the individual annuitant payments on Treasury's behalf. Treasury utilizes an electronic payment system developed by the Treasury and the Federal Reserve Bank of Richmond to fund the monthly annuity and refund payments. Bank of America is authorized to initiate draws against the electronic payment system for the amount of pension and refund checks cleared and the amount of Automated Clearing House (ACH) benefit payments settled each business day.

E. Identification of Policy and Legal Issues

The absence of a single District office or official with the authority and responsibility for retirement program policy is a continuing challenge to successful accomplishment of Treasury's benefits administration responsibilities. As a result of this gap in D.C. policy-making, Treasury staff works with multiple District offices to resolve policy issues and oversee operational implementation.

Treasury and the District developed a process for resolving policy issues. The formal policy review and clearance process includes obtaining signatures from Treasury officials and three District officials (representing police officers and firefighters, teachers, and judges, respectively). For this purpose, a policy issue is any matter pertaining to the Treasury's responsibilities for benefits administration which is subject to discretionary interpretation or clarification. Through this process, Treasury will resolve pensions administration issues consistent with the Department's responsibilities under the law. Treasury retains the responsibility for determining policies with respect to Federal benefits and intends to continue coordinating policy decisions with the District.

Some policy issues were identified through reviews conducted by Treasury, OPM staff, and contractors over the past three years. Other issues were identified during development of the replacement system, and additional issues may surface during system testing and implementation. A brief discussion of some of the issues Treasury considered during FY 2000 follows:

- Treasury determined that service of process under section 659 of title 42, United States Code, part 581 of Title 5, Code of Federal Regulations (CFR), implementing an order for alimony or child support, or any request for or notice of appointment of a custodian, guardian, or other fiduciary to receive Federal Benefit Payments as representative payees, must be served upon the Treasury. Process involving retirement benefits payable by the District must be served upon the District in accordance with applicable law. Service of process will be addressed in a final regulation (29 CFR 203) that will be published in the Federal Register in December 2000.
- Treasury notified the District in June 2000 of its determination that Federal Benefit Payments must not be used to satisfy third party wage attachments except those specifically authorized by Federal law, such as for alimony and child support. Federal Benefit Payments are also subject to Federal tax liens and certain other withholding requirements.
- Treasury determined that the initial rate of a child survivor annuity under the Teachers Plan on its commencement date (after October 31, 1969) should include all COLAs effective after October 31, 1969. Treasury will work with the District to adjust the annuities for all current child survivors. In addition, Treasury and the District will make efforts to locate and compensate individuals whose benefits were underpaid.
- Treasury reviewed the settlement agreement entered into by the plaintiffs and the District in response to a lawsuit filed in the Superior Court of the District of Columbia, Civil Division, against the District (Mason v. District of Columbia) for retirement salary adjustments due 11 deceased police officers. In coordination with the Department of Justice and the District's Corporation Counsel, Treasury arranged for the settlement agreement between the District and the plaintiffs to be reopened to provide for the plaintiff's agreement to release the U.S. Government and indemnify it from any liability. It is expected that the Trust Fund will pay this settlement in FY 2001.

- Three outstanding legal issues concerning the Judges' Retirement Plan remain were resolved: (1) proration of the first COLA following commencement of an annuity; (2) application of the "look back" (i.e., the COLA immediately preceding retirement) in determining retirement salary; and (3) determination of interest rates applicable to service credit purchases. Treasury determined that appeals, debt collection, and waiver policies should be issued by Federal regulation before decisions on the three issues will be implemented for current retirees and survivors. The Office of D.C. Pensions has begun drafting the regulations.

F. Summary Plan Descriptions

One of the items Treasury became responsible for with the passage of the Act, was providing participants and beneficiaries with a summary description of the District of Columbia's Police Officers and Firefighters' Retirement Plan, the District of Columbia's Teachers' Retirement Plan and the District of Columbia's Judges' Retirement Plan. The D.C. Code lists information the summary plan descriptions must include. The summary plan descriptions include a description of plan benefits, eligibility for benefits, how benefits will be calculated and what benefits are provided for spouses or survivors. The summary descriptions also describe circumstances which may result in disqualification, ineligibility or denial or loss of benefits, procedures to follow to claim benefits under the retirement program and remedies available for redress of claims denied in whole or in part.

The retirement program summary descriptions are to be revised, updated and issued every five years. The last revision was distributed in the spring of 1997. Treasury will release a new set of summary plan descriptions (one for each plan) in the spring of 2002.

G. Federal/D.C. Benefit Split Regulations

Proposed regulations were published in the Federal Register (64 FR 69432) on December 13, 1999. The regulations establish the general rules for Treasury's administration of its D.C. Pensions Program responsibilities and define in detail the rules for dividing the payment of benefits between the Federal and District governments for the Police, Firefighters, and Teachers Retirement Plans. Treasury received two comments on the proposed regulations and accepted nine of the ten suggestions proposed in the comments. The final regulations (Federal Benefit Payments Under Certain District of Columbia Retirement Plans) will be published in FY 2001 as part 29 of Title 31, CFR.

IV. Information Systems Activities

A. Staff Support

Within Treasury, the Office of Information Technology Policy and Strategy, Office of the Deputy Assistant Secretary for Information Systems and Chief Information Officer, provides support and advice on information systems issues. Additional systems support and technical advice are provided by contractors. In FY 2000, the primary information system responsibilities were to resolve potential Y2K problems and oversee development and implementation of a replacement pension system.

B. Y2K Remediation Efforts

Treasury worked with District representatives of the Chief Technology Officer (CTO) and Chief Financial Officer (CFO) to ensure that the current pension system would be Y2K compliant and able to process pension payments in 2000. Treasury's primary role was to provide management, oversight and support for the remediation and testing efforts and to work with the District to ensure that adequate resources were allocated to this program. The necessary upgrades to pension applications, the mainframe computer at the Share Data Center, a centralized computer center with multiple users, and other CFO systems that run at the Share Data Center were completed. The remediated pension system code was tested, and the upgrade of the front-end processing for pension data was completed. End-user computing, non-IT projects, and testing of CFO and OPRS contingency plans were completed. The improvements to, and remediation of, the current system enabled the system to produce pension checks in January 2000 and thereafter.

C. Replacement of the Current D.C. Pension System

The automated system that the District currently uses to support payments to annuitants has served the District well for many years. The Assessment and Status of Year 2000 Compliance of the District of Columbia Pension System conducted by a Treasury contractor in 1998 determined that the system used for pension processing is obsolete and beyond its reasonable service life. Furthermore, the study found that continued support of many of the current system components is often many times more expensive than modern replacements.

Recognizing this, and based on agreement with the District, Treasury has acquired a COTS product, PeopleSoft, that the Treasury contractor/systems integrator is tailoring to meet the processing needs of the District and Treasury. The development process, which began in December 1999, includes acquisition, tailoring, testing and installation of the product, and training Treasury and District personnel in its use. A functional requirements document for the replacement system was completed early in FY 2000 with all Treasury and District users contributing to its development.

The new system's core pension module will calculate gross benefits and record deduction selections for annuitants. For those beneficiaries entitled to both Federal and District Benefit Payments (i.e., teachers, police and firefighters who have accrued service both before and after June 30, 1997), the new system will calculate the respective shares owed by the Federal Government and the District.

The replacement system will provide business functions that will improve current operations. Implementation of a COTS product provides an opportunity for business process improvements and effective change management. Treasury and the District expect that the reengineered processes will decrease the time required by users to administer benefits, provide consistent processes, support data integrity, allow for employee pension estimates, and provide a best practice platform for benefits administration.

At this time, Treasury cannot establish with reasonable certainty a date on which the replacement pension system will be operational. When Treasury has selected a payroll/accounting provider for the replacement pension system, time frames for developing and testing a unified pension/payroll system for D.C. Pensions can be determined.

V. Management and Financial Activities

A. Staff Support

The Office of D.C. Pensions is responsible for managing and coordinating Treasury's responsibilities under the statute. The staff initiates all of the financial activities and oversees their execution by the Administrative Resource Center (ARC), BPD, in Parkersburg, West Virginia. The Office of Domestic Finance provides assistance on investment and actuarial matters. The Office of the Deputy Assistant Secretary for Fiscal Operations and Policy advises on banking and payment matters. The Office of the General Counsel provides legal advice. Within the Office of Management, the Office of Personnel Policy provides support and advice on benefits administration matters, and the Office of IT Policy and Strategy provides support and advice on information system issues. The Procurement Services Division staff negotiates and provides contractual support except for the contract with the systems integrator developing the replacement pension system. The contract with the systems integrator is supported by the Procurement Office in the Internal Revenue Service.

B. Actuarial Valuations

The Act requires Treasury to engage an enrolled actuary to perform annual actuarial valuations of the Trust Fund and the Supplemental Fund for the obligations assumed by the Federal Government. Treasury has included the Judicial Retirement Fund in the annual actuarial valuations. Data from the actuarial valuations are used to determine the annual statutory payments to the Supplemental Fund and the Judicial Retirement Fund, and to support fund investment decisions, budget projections and long-term project planning. Treasury contracted with Deloitte & Touche LLP (Deloitte) to perform the actuarial valuations as of October 1, 2000.

For the Trust and Supplemental Funds, Deloitte determined an actuarial liability as of October 1, 2000, of approximately \$7.49 billion, of which \$3.96 billion is funded by existing assets in the Trust Fund and Supplemental Fund and approximately \$3.53 billion is unfunded. Deloitte projected that the assets in the Trust Fund would last through FY 2008, and Federal Benefit Payments would peak at approximately \$520 million in FY 2018 before beginning a gradual annual decline.

For the Judicial Retirement Fund, Deloitte determined an actuarial liability as of October 1, 2000, of approximately \$103.1 million, of which \$83.7 million is funded by existing assets of the Judicial Retirement Fund and approximately \$19.4 million is unfunded.

The Supplemental Information section of this report contains additional actuarial and

demographic information on the D. C. Pensions Program.

C. Financial Reporting

The Trust Fund, Supplemental Fund, and Judicial Retirement Fund were established at BPD to fund the benefits and administrative expenses of the retirement programs. Pursuant to an inter-agency agreement with the Office of D.C. Pensions, administrative accounting for the Office of D.C. Pensions is performed by ARC. Under the FY 2000 agreement, ARC recorded all transactions in ARC's SGL compliant accounting system; prepared the Statement of Transactions, the Report on Budget Execution, the Year-End Closing Statement, and the FY 2000 financial statements and notes; transmitted the financial information to Federal Agencies' Centralized Trial Balance System (FACTS) and to the Treasury Information Executive Repository (TIER); reconciled Treasury's account at Bank of America; provided monthly reports from the Federal Financial System (FFS); and provided monthly reports to the Office of D.C. Pensions. Treasury staff worked closely with ARC on administrative payments and the financial reports.

Treasury and the District agreed to "Operating Procedures for Processing the Treasury Payments to the District Government to Pay Certain Retirement Program Benefits" effective May 30, 2000. In draft form, these Operating Procedures were used by Treasury and the District beginning in June 1999 when Treasury began paying benefits from the trust funds at BPD. The Operating Procedures specify the responsibilities of various Treasury and District offices, BPD and the Bank of America in the benefit payment process. In addition, Treasury completed internal procedures for administering its financial responsibilities, including TIER certification, credit card usage and invoice processing.

D. Administrative Expenses

Treasury is responsible for all expenses incurred to support the Federal responsibilities under the retirement programs since October 1, 1997, the effective date of the Act. Treasury pays expenses from the Trust Fund and the Judicial Retirement Fund, allocated to the Funds in accordance with the benefits derived. For expenses related to activities that benefit all of the retirement programs, expenses are allocated 90% to the Trust Fund and 10% to the Judicial Retirement Fund. When expenses benefit only one group or the other, or when a different allocation is clearly appropriate, expenses are charged accordingly.

For FY 2000, administrative expenses totaled approximately \$3.5 million for the Trust Fund and \$348 thousand for the Judicial Retirement Fund. The major administrative expenses of the D.C. Pensions Program were for reimbursement of the District's administrative expenses, Treasury staff salaries and benefits, and reimbursement to OPM. In addition, certain costs of the pension replacement system for hardware, software, and system development were capitalized and, therefore, are not included as expenses for FY 2000.

E. End of the Interim Period

Amendment No.1 to the First Amended and Restated MOU Concerning Interim Administration of Retirement Programs, dated September 28, 2000, contemplates an end to the interim benefits period after Treasury hires a trustee to administer the retirement programs or makes a formal determination that a trustee will not be hired. This determination will trigger the need for financial reconciliation with the District and the DCRB based on detailed summaries and auditor reports provided by the District and the DCRB documenting their activities during the interim benefits period.

As part of this final reconciliation, Federal and District Benefit Payments must be calculated for annuitants who retired after June 30, 1997. Treasury plans to use the replacement pension system to calculate the split for these annuitants, who are the joint responsibility of the Federal and District Governments. Consequently, the effective date of the final regulations concerning the methodology for determining the amount of the Federal Benefit Payments must be consistent with the date that the replacement system becomes operational.

Treasury is currently paying for all retirement benefits under the retirement programs covering police officers, firefighters and teachers. Amendment No. 1 to the First Amended and Restated MOU, dated September 28, 2000, provided that DCRB reimburse Treasury on an estimated basis in September 2000 for District Benefit Payments paid on the District's behalf for FY 1998 and FY 1999. This sum was estimated to be \$2.9 million by DCRB's actuary. In January 2001, DCRB will reimburse Treasury for District Benefit Payments paid on the District's behalf for FY 2000. DCRB's actuary estimated this amount to be \$3.9 million.

This process will be repeated for future full fiscal years in which Treasury pays District Benefit Payments until the replacement pension system is implemented. Thereafter, the DCRB will fund District Benefit Payments on a monthly basis. After the actual Federal and District Benefit Payments beginning on October 1, 1997, are determined, Treasury and the DCRB will reconcile the actual with the estimated payments and appropriate adjustments will be made.

VI. Strategic Goals, Performance Measures and Results

Treasury has been responsible for the D.C. Pensions Program since October 1, 1997. A new matrix organizational structure was established to manage Treasury's responsibilities under the Act. The Office of D.C. Pensions staff and the other members of the D.C. Pensions Program team work together to achieve the goals and objectives of the D.C. Pensions Program.

- Under the Department's strategic goal to "Manage the Federal Government's Accounts," the D.C. Pensions Program established these strategic goals: (1) Ensure all Federal payments are accurate and timely; (2) Ensure the effective management and/or investment of funds in the custody of the Treasury; and (3) Improve customer satisfaction. To meet these goals, the D.C. Pensions Program has established specific targets and measures to assess the success of the program.

A. *Fiscal Year 2000 Performance Results and Fiscal Years 2001 - 2002 Strategic Goals, Performance Targets and Performance Measures*

D.C. Pensions Strategic Goal: Ensure all Federal payments are accurate and timely

Performance Target: Ensure funds are made available to pay benefits and expenses when due.	Performance Measure: Provide funds to the District to make payments monthly.
Performance Results: During FY 2000, Treasury funded benefit payments and refunds of employee contributions from the assets of the Trust Fund and the Judicial Retirement Fund on all the due dates requested by the District. During FY 2000, Treasury paid \$410.5 million in Federal benefits and refunds of employee contributions. Administrative expenses totaled \$3.8 million.	

Performance Target: Implement a pension payroll system to improve processing time and accurately determine Federal benefit payments.	Performance Measure: Implement automated system and validate accurate performance.
Performance Results: During FY2000, the Office of D.C. Pensions acquired the PeopleSoft pension module and began working with a systems integrator to tailor the product to meet the needs of the D.C. Pensions Program.	

D.C. Pensions Strategic Goal: Ensure the effective management and/or investment of funds in the custody of the Treasury

Performance Target: Ensure funds are made available to pay benefits and expenses when due.	Performance Measure: Ensure that cash balances and maturing securities are adequate to meet obligations.
Performance Results: Consistent with the Act, the investment policies followed by the Office of D.C. Pensions ensure that cash is available from maturing securities as needed for benefit payments and administrative services. For all three Funds, maturities are selected to avoid the need for early redemption of securities. Contingencies are provided for through maintenance of liquidity balances funded by regular interest payments, scheduled maturities in amounts slightly above actuarial projections of benefits and expenses, and, in the Judicial Retirement Fund, regular payroll contributions.	

Performance Target: Obtain an unqualified opinion on financial statements.	Performance Measure: Auditors issue an unqualified opinion.
Performance Results: In FY 2000, timely and accurate financial statements were prepared. The Treasury Office of Inspector General provided an unqualified opinion on the Office of D.C. Pensions' financial statements for FY 1999.	

Performance Target: Provide actuarial information to update investment strategies and determine annual deposit to the Trust Funds.	Performance Measure: Issue actuarial report.
<p>Performance Results: During FY 2000, the enrolled actuary issued a report as of October 1, 1999, providing the amount of the deposits to two trust funds and data that is necessary to manage on a timely basis the investment of funds. Under the Act, annual deposits are made from the Treasury General Fund to the Supplemental Fund and the Judicial Retirement Fund to amortize the original unfunded liabilities of the retirement programs over 30 years; the net experience gains or losses over 10 years; and any other changes in actuarial liabilities over 20 years, and to fund covered administrative expenses for the year. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program. Based on actuarial information and analysis, on September 27, 2000, Treasury deposited approximately \$181.7 million and \$5.5 million, respectively, into these Funds and immediately invested these amounts in non-marketable Treasury securities, as required by the Act. The total unfunded liability for the Trust and Judicial Retirement Funds was approximately \$3.8 billion, as of October 1, 1999.</p>	

Performance Target: Implement corrective actions in FMFIA report and other reviews.	Performance Measure: Implement and document corrections.
<p>Performance Results: To address its responsibilities under the Act, Treasury had to establish and build an organization. During FY 1999, the framework for that organization was put into place. During FY 2000, the Office of D.C. Pensions was formally established by Treasury Directive 13-20, "Delegation of Authority for Administering the District of Columbia Retirement Programs," dated December 3, 1999. This Office reports to the Assistant Secretary for Management and Chief Financial Officer.</p> <p>To address FMFIA weaknesses, Treasury's proposed benefit split regulations were published in the <u>Federal Register</u> in December 1999. Most of the comments received were incorporated in the final regulations that will be published in the <u>Federal Register</u> in FY 2001. These regulations will be implemented in conjunction with the new pension system.</p> <p>The Office of D.C. Pensions also established procedures to make and issue policy decisions, and helped the District to reorganize and protect annuitant files.</p>	

Performance Target: Ensure that funds are invested in accordance with Treasury policies.	Performance Measure: Review and update investment policies annually.
<p>Performance Results: By September 30, 2000, the Office of D.C. Pensions had almost completed its review of investment policies established by Treasury's Office of Market Finance and potential changes in those policies.</p> <p>In addition, Treasury renegotiated the Memorandum of Understanding (MOU) with the District. As a result DCRB reimbursed the Trust Fund \$2.9 million in September 2000 for retirement benefits paid in FYs 1998 and 1999. Consistent with the Act, these funds were immediately invested in Treasury nonmarketable securities. In January 2001, DCRB will reimburse the Trust Fund for District Benefit Payments paid in FY 2000, currently estimated at \$3.9 million.</p>	

Performance Target: Implement a pension payroll system to improve processing time and accurately determine Federal benefit payments.	Performance Measure: Implement automated system and validate accurate performance.
Performance Results: During FY 2000, the Office of D.C. Pensions acquired the PeopleSoft pension module and began working with a systems integrator to tailor the product to meet the needs of the D.C. Pensions Program.	

Performance Target: Reduce erroneous payments.	Performance Measure: Complete statistical analysis of errors; develop correction plan using new system capabilities; correct errors as identified.
Performance Results: During FY 2000, a preliminary analysis of policy and legal issues associated with benefits determinations was made to determine the extent of the errors. As individual case errors were discovered, they were corrected.	

D.C. Pensions Strategic Goal: Improve Customer Satisfaction
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Performance Target: Provide annuitants with Benefit Plan information that is clear, concise and accurate	Performance Measure: Produce a summary plan description for each of the three benefit plans.
Performance Results: During FY 2000, contact was made with the District of Columbia Retirement Board to begin developing a strategy for updating and improving the three benefit plan descriptions. It is anticipated that the plans will be written, published and be available to annuitants and employees by FY 2002.	

Performance Target: Survey customers to obtain information on their needs and expectations.	Performance Measure: Implement customer service improvements.
Performance Results: During FY 2000, meetings were held with constituents, and the benefits administration working group. The Office of D.C. Pensions anticipates that a survey of customers will be performed by early 2002. The new pension system under development will include a number of customer service improvements.	

Performance Target: Maintain a web based automated pension system that provides internal customers with accurate and timely information .	Performance Measure: System is complete for employees' use and employees are trained by FY 2002.
Performance Results: During FY 2000, no action took place on this target. This initiative will be implemented as part of the development of the replacement automated pension system.	

B. Key Trends

- In FY 2000, Federal benefit payments and refunds of employee contributions under the District of Columbia retirement programs for police and firefighters, teachers, and judges totaled \$410.5 million compared with \$407.6 million in FY 1999. Administrative expenses totaled approximately \$3.5 million for the Trust Fund and \$348 thousand for the Judicial Retirement Fund.

- As of October 1, 2000, the actuarial valuation estimates Federal unfunded liabilities of approximately \$3.55 billion for the retirement program, which is down from \$3.8 billion as of October 1, 1999. Total assets of the funds declined from \$4.06 billion in FY 1999 to \$4.04 billion during FY 2000.

C. *FY 2001*

- Consistent with the goals of the D.C. Pensions Program, the Office of D.C. Pensions in FY 2001 will focus on: implementing a new replacement pension system; establishing a customer service program that both Treasury and the District can use to provide services to internal and external customers; providing training and electronic tools to the retirement examiners who have a direct impact on annuitants; and continuing to ensure that the trust funds are managed in the most efficient and economical manner. Treasury will continue to monitor progress on objectives and key initiatives beyond FY 2001.

VII. Limitations of the Financial Statements

- The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of the 31 United States Code 3515(b).
- While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget, statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.
- The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Office of D.C. Pensions

District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund)

RECEIPTS

- Amounts deposited by, or deducted and withheld from the salary and retired pay of, a Judge pursuant to D.C. Code section 11-1570(a) (beginning in FY 1998).
- Deposits from annual appropriations to D.C. Courts (FY 1998 only).
- Amounts transferred from District of Columbia Judges' Retirement Fund (at DCRB).
- Annual deposit from the General Fund of the Treasury (beginning in FY 1999).
- Interest income from investments in Government Account Series securities.

OUTLAYS

- Benefit payments for retired Judges and survivors.
- Refunds of retirement contributions.
- Treasury administrative expenses.
- Reimbursement to the District for administrative expenses.

Judicial Retirement Fund

Pub. L. 105-33, Sec. 11251
Pub. L. 105-277
(technical amendments)



Office of D.C. Pensions

District of Columbia Federal Pension Liability Trust Fund (Trust Fund)

RECEIPTS

- Amounts transferred from D.C. Police Officers, Firefighters and Teachers Retirement Funds (at DCRB).
- Interest income from investments in Government Account Series securities.
- Reimbursement from the District for estimated District benefit payments.

OUTLAYS

- Benefit payments to retired Police Officers, Firefighters, Teachers and survivors.
- Refunds of retirement contributions.
- Treasury administrative expenses.
- Reimbursement to the District for administrative expenses.

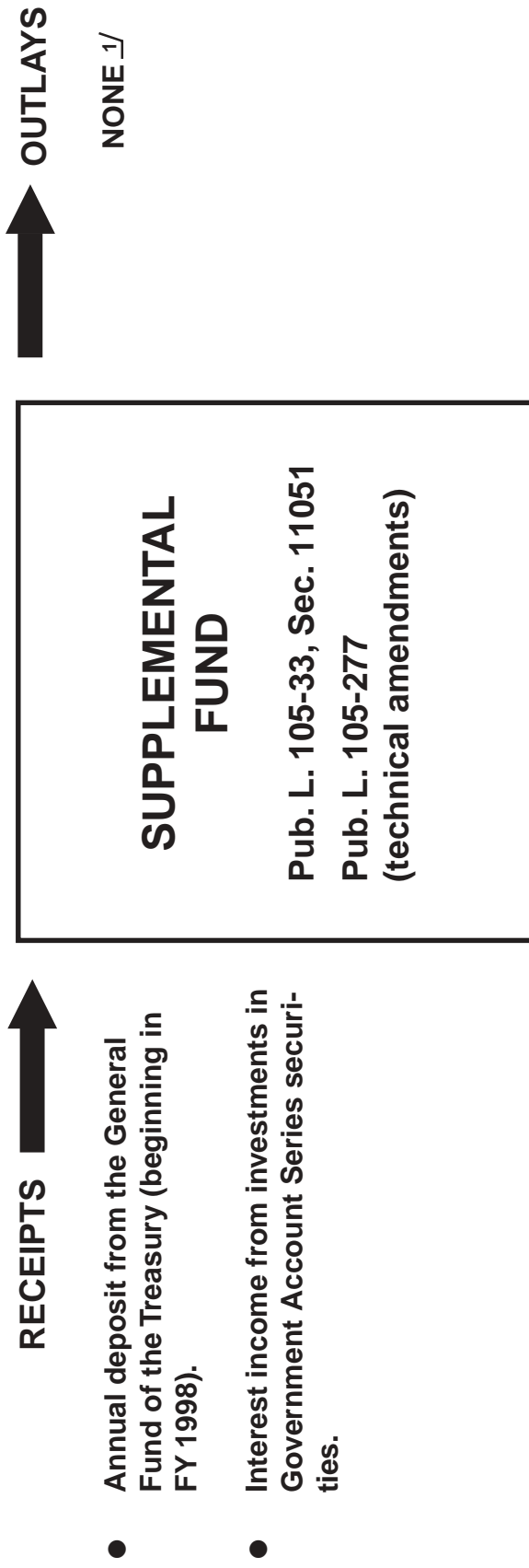
TRUST FUND

Pub. L. 105-33, Sec. 11031
Pub. L. 105-277
(technical amendments)



Office of D.C. Pensions

Federal Supplemental District of Columbia Pension Fund (Supplemental Fund)



^{1/} Supplemental Fund is not available for benefit payments to retired Police Officers, Firefighters, Teachers and survivors until the Trust Fund is depleted.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Balance Sheet
As of September 30, 2000
(In Thousands)

	DC Judicial Retirement and Survivors Annuity Fund	Federal Supplemental DC Pension Fund	DC Federal Pension Liability Trust Fund	Consolidated DC Pension Funds Total
Assets				
Entity Assets				
Intra-Governmental Assets				
Fund Balance with Treasury	\$ 1	\$ -	\$ 7	\$ 8
Investments in GAS Securities, Net (Note 3)	82,318	857,521	3,037,371	3,977,210
Interest Receivable from GAS Securities	1,188	9,375	48,766	59,329
Construction-In-Progress (ADP Software)	424	-	3,815	4,239
Equipment, Net (Note 4)	10	-	90	100
Accounts Receivable	26	-	3,881	3,907
Total Assets	\$ 83,967	\$ 866,896	\$ 3,093,930	\$ 4,044,793
Liabilities				
Liabilities Covered By Budgetary Resources				
Intra-Governmental				
Accounts Payable	\$ 29	\$ -	\$ 215	\$ 244
Accrued Payroll & Benefits	1	-	7	8
Accounts Payable	272	-	4,210	4,482
Accrued Pension Benefits Payable	386	-	34,605	34,991
Actuarial Pension Liability	83,258	-	3,921,609	4,004,867
Accrued Payroll & Benefits	21	-	180	201
Total Liabilities Covered By Budgetary Resources	83,967	-	3,960,826	4,044,793
Liabilities Not Covered By Budgetary Resources				
Actuarial Pension Liability	19,455	-	3,533,886	3,553,341
Contingent Liability (Note 9)	-	-	166	166
Total Liabilities	103,422	-	7,494,878	7,598,300
Net Position:				
Balances				
Unexpended Appropriations (Note 5)	-	816,100	-	816,100
Cumulative Results of Operations	(19,455)	50,796	(4,400,948)	(4,369,607)
Total Net Position	(19,455)	866,896	(4,400,948)	(3,553,507)
Total Liabilities & Net Position	\$ 83,967	\$ 866,896	\$ 3,093,930	\$ 4,044,793

The accompanying notes are an integral part of these financial statements.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statement of Net Cost
For the Year Ended September 30, 2000
(In Thousands)

	DC Judicial Retirement and Survivors Annuity Fund	Federal Supplemental DC Pension Fund	DC Federal Pension Liability Trust Fund	Consolidated DC Pension Funds Total
<i>Program Costs</i>				
<i>Intra-Governmental</i>				
Administrative Expenses (Note 6)	\$ 72	\$ -	\$ 475	\$ 547
Pension Expense (Note 7)	5,587	-	213,931	219,518
Administrative Expenses (Note 6)	276	-	3,003	3,279
Future Funded Expenses - Contingency (Note 9)	-	-	166	166
Contribution Refunds Expense	43	-	-	43
<i>Total Program Costs</i>	<u>5,978</u>	<u>-</u>	<u>217,575</u>	<u>223,553</u>
<i>Less: Earned Revenues</i>				
Interest Earned from GAS Securities	4,631	34,390	173,471	212,492
Employee Contributions	692	-	-	692
<i>Net Cost of Operations</i>	<u>\$ 655</u>	<u>\$ (34,390)</u>	<u>\$ 44,104</u>	<u>\$ 10,369</u>

The accompanying notes are an integral part of these financial statements.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statement of Changes in Net Position
For the Year Ended September 30, 2000
(In Thousands)

	DC Judicial Retirement and Survivors Annuity Fund	Federal Supplemental DC Pension Fund	DC Federal Pension Liability Trust Fund	Consolidated DC Pension Funds Total
Net Cost of Operations	\$ 655	\$ (34,390)	\$ 44,104	\$ 10,369
Financing Sources (Other Than Exchange Revenue)				
Appropriations Used	5,466	-	-	5,466
Additional Proceeds from DC Asset Liquidation	17	-	868	885
Imputed Financing Sources	5	-	46	51
Total Financing Sources	<u>5,488</u>	<u>-</u>	<u>914</u>	<u>6,402</u>
Net Results of Operations	4,833	34,390	(43,190)	(3,967)
Prior Period Adjustment (Note 8)	<u>5,372</u>	<u>-</u>	<u>32,625</u>	<u>37,997</u>
Net Change in Cumulative Results of Operations	10,205	34,390	(10,565)	34,030
Increase/(Decrease) in Unexpended Appropriations	<u>(5,000)</u>	<u>181,700</u>	<u>-</u>	<u>176,700</u>
Change in Net Position	5,205	216,090	(10,565)	210,730
Net Position - Beginning of Period	<u>(24,660)</u>	<u>650,806</u>	<u>(4,390,383)</u>	<u>(3,764,237)</u>
Net Position - End of Period	<u>\$ (19,455)</u>	<u>\$ 866,896</u>	<u>\$ (4,400,948)</u>	<u>\$ (3,553,507)</u>

The accompanying notes are an integral part of these financial statements.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2000
(In Thousands)

	DC Judicial Retirement and Survivors Annuity Fund	Federal Supplemental DC Pension Fund	DC Federal Pension Liability Trust Fund	Combined DC Pension Funds Total
Budgetary Resources				
Budget Authority	\$ 15,478	\$ 181,700	\$ 181,883	\$ 379,061
Unobligated Balance - Beginning of Period	73,835	-	3,180,651	3,254,486
Spending Authority from Offsetting Collections	-	36,955	-	36,955
Temporarily Unavailable Pursuant to Public Law	-	(218,655)	-	(218,655)
Total Budgetary Resources	<u>\$ 89,313</u>	<u>\$ -</u>	<u>\$ 3,362,534</u>	<u>\$ 3,451,847</u>
Status of Budgetary Resources				
Obligations Incurred	\$ 11,008	\$ -	\$ 419,952	\$ 430,960
Unobligated Balances Available	78,305	-	2,942,582	3,020,887
Total Status of Budgetary Resources	<u>\$ 89,313</u>	<u>\$ -</u>	<u>\$ 3,362,534</u>	<u>\$ 3,451,847</u>
Outlays				
Obligations Incurred	\$ 11,008	\$ -	\$ 419,952	\$ 430,960
Less: Spending Authority from Offsetting Collections & Adjustments	-	(36,955)	-	(36,955)
Subtotal	11,008	(36,955)	419,952	394,005
Obligated Balance, Net - Beginning of Period	519	-	35,813	36,332
Less: Obligated Balance, Net - End of Period	(834)	-	(40,280)	(41,114)
Total Outlays	<u>\$ 10,693</u>	<u>\$ (36,955)</u>	<u>\$ 415,485</u>	<u>\$ 389,223</u>

The accompanying notes are an integral part of these financial statements.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combining Statement of Financing
For the Year Ended September 30, 2000
(In Thousands)

	DC Judicial Retirement and Survivors Annuity Fund	Federal Supplemental DC Pension Fund	DC Federal Pension Liability Trust Fund	Combined DC Pension Funds Total
<i>Obligations and Non-Budgetary Resources</i>				
Obligations Incurred	\$ 11,008	\$ -	\$ 419,952	\$ 430,960
Less: Spending Authority From Offsetting Collections and Adjustments	-	(36,955)	-	(36,955)
Exchange Revenue Not in Offsetting Collections	(5,323)	(2,266)	(173,471)	(181,060)
Imputed Financing Sources Not in Offsetting Collections	5	-	46	51
Premium Amortization increasing Net Cost of Operations	-	2,732	-	2,732
Total Obligations, as Adjusted, & Non-Budgetary Resources	<u>5,690</u>	<u>(36,489)</u>	<u>246,527</u>	<u>215,728</u>
<i>Resources That Do Not Fund Net Cost of Operations</i>				
Change in Goods/Services Ordered But Not Yet Received	(120)	-	(848)	(968)
Costs in Offsetting Collections, Capitalized on the Balance Sheet	-	2,099	-	2,099
Costs in Obligations Incurred, Capitalized on the Balance Sheet	(435)	-	(3,915)	(4,350)
Financing Sources that Fund Costs of Prior Periods	-	-	(189,835)	(189,835)
Adjustment for Outlays That Do Not Affect Net Cost of Operations	(5,477)	-	(7,835)	(13,312)
Total Resources That Do Not Fund Net Cost of Operations	<u>(6,032)</u>	<u>2,099</u>	<u>(202,433)</u>	<u>(206,366)</u>
<i>Components of Net Cost That Do Not Require Resources</i>				
Depreciation Expense on Equipment	<u>1</u>	<u>-</u>	<u>10</u>	<u>11</u>
Total Costs That Do Not Require Resources	<u>1</u>	<u>-</u>	<u>10</u>	<u>11</u>
<i>Financing Sources Yet to be Provided</i>				
Future Funded Expenses	<u>996</u>	<u>-</u>	<u>-</u>	<u>996</u>
Net Cost of Operations	<u>\$ 655</u>	<u>\$ (34,390)</u>	<u>\$ 44,104</u>	<u>\$ 10,369</u>

The accompanying notes are an integral part of these financial statements.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Notes to Financial Statements
September 30, 2000

Note 1: Reporting Entity

The Balanced Budget Act of 1997, as amended (the Act), provides that the Secretary of the Treasury (the Secretary) assume certain responsibilities for the District of Columbia (D.C.) pension system, including administration of fund assets and making Federal pension benefit payments. The Department of the Treasury's (Treasury) Office of D.C. Pensions, within the Departmental Offices, administers the Secretary's responsibilities under the Act. This is accomplished through a matrix management arrangement that includes a core office supported by other Treasury offices that provide expertise in the range of areas encompassed by the Act. The Office of D.C. Pensions is responsible for investments, benefits administration, actuarial valuations, procurement, information systems, and financial reporting. Treasury's Office of the General Counsel provides legal analysis.

To varying degrees the Secretary is responsible for three D.C. retirement plans:

- Police Officers' and Firefighters' Retirement Plan
- Teachers' Retirement Plan
- Judges' Retirement Plan

For the Police Officers and Firefighters and Teachers Retirement Plans, the Secretary is responsible for paying benefits earned through June 30, 1997. The D.C. Government is responsible for paying benefits earned after June 30, 1997. For the Judges' Retirement Plan, the Secretary is responsible for all benefits earned.

District of Columbia Federal Pension Liability Trust Fund

Pursuant to the Act, Treasury established the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund). The Trust Fund is used for the accumulation of funds to finance obligations of the Federal government for benefits and necessary administrative expenses for the Police Officers and Firefighters and Teachers Retirement Plans under the provisions of the Act. The Trust Fund consists of the following:

- Amounts deposited from assets transferred to Treasury from the D.C. Retirement Board pursuant to the Act;
- Income earned on the investments held in the Trust Fund; and
- Reimbursement from the D.C. Government for the District's estimated share of benefits paid from the Trust Fund for Fiscal Years (FY) 1998-99.

The portion of the Trust Fund that is not needed to meet the level of current benefit payments, refunds and administrative expenses is invested in Government Account Series (GAS) securities issued by the Bureau of Public Debt. Investments are made in securities with maturities suitable to the needs of the Trust Fund.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Notes to Financial Statements
September 30, 2000

Federal Supplemental District of Columbia Pension Fund

Pursuant to the Act, Treasury established the Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund). The Supplemental Fund is used for the accumulation of funds to finance obligations of the Federal government for benefits and necessary administrative expenses for the Police Officers and Firefighters and Teachers Retirement Plans. Funds held in the Supplemental Fund are not available for use until such time as the funds held in the Trust Fund have been depleted. Not later than 18 months before the projected depletion of the available assets of the Trust Fund, the Secretary shall determine the manner in which the Supplemental Fund will be used to fund future benefits and administrative expenses.

The Supplemental Fund consists of the following:

- Amounts deposited from the General Fund of the Treasury; and
- Income earned on the investments held in the Supplemental Fund.

The funds held in the Supplemental Fund are invested in GAS securities with maturities suitable to the needs of the Supplemental Fund.

By the end of each applicable fiscal year, the Act requires the Secretary to pay into the Supplemental Fund (from the General Fund of the Treasury) an amount equal to the annual amortization amount and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize in equal annual installments the original unfunded liability over 30 years, the net experience gain or loss over 10 years and any other changes in actuarial liability over 20 years. The original unfunded liability is the present value of future benefits payable from the Supplemental Fund as of October 1, 1997. The amount paid into the Supplemental Fund during FY 2000 was \$181.7 million.

District of Columbia Judicial Retirement and Survivors Annuity Fund

Pursuant to the Act, Treasury established the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund). The Judicial Retirement Fund is used for the accumulation of funds to finance obligations of the Federal government for benefits and necessary administrative expenses of the Judicial Retirement Fund under the provisions of the Act.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Notes to Financial Statements
September 30, 2000

The Judicial Retirement Fund consists of the following:

- Amounts deposited from assets transferred to Treasury from the D.C. Retirement Board pursuant to the Act;
- Amounts deposited from the General Fund of the Treasury;
- Income earned on the investments held in the Judicial Retirement Fund; and
- Employee contributions to the Judicial Retirement Fund.

The portion of the Fund that is not needed to meet the level of current benefit payments, refunds and administrative expenses is invested in GAS securities. Investments are made in securities with maturities suitable to the needs of the Judicial Retirement Fund.

By the end of each fiscal year, the Act states that the Secretary shall deposit into the Judicial Retirement Fund (from the General Fund of the Treasury) an amount equal to the normal cost for the year, an annual amortization amount and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liability over 30 years, the net experience gain or loss over 10 years and any other changes in actuarial liability over 20 years. The original unfunded liability is the present value of future benefits payable from the fund as of October 1, 1997, net of the sum of the present value of future normal costs and plan assets on such date. The amount paid into the Judicial Retirement Fund during FY 2000 was approximately \$5.5 million.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements have been prepared from the accounting records of the Office of D.C. Pensions in conformity with generally accepted accounting principles (GAAP) and the Form and Content of Agency Financial Statements specified by the Office of Management and Budget (OMB) in OMB Bulletin No. 97-01, as amended. GAAP for federal entities is primarily prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is designated the official accounting standards setting body of the Federal government by the American Institute of Certified Public Accountants. The statements are different from the financial reports, also prepared by the Office of D.C. Pensions, pursuant to OMB directives that are used to monitor and control the Office of D.C. Pensions' use of budgetary resources. These financial statements consist of the Consolidating Balance Sheet, the Consolidating Statements of Net Cost and Changes in Net Position, and the Combining Statements of Budgetary Resources and Financing, all of which are prescribed by OMB Bulletin No. 97-01, as amended.

While these financial statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, these financial statements are in addition to the

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financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

Liquidation of Transferred Assets/Allocation of Liquidation Proceeds

As of September 30, 1999, substantially all of the assets transferred to the Federal Government from the D.C. Government had been liquidated and the proceeds invested in GAS securities in accordance with the Act and Section 130 of Division A of Public Law 105-277 (1998). During FY 2000, the remaining assets transferred from the D.C. Government were liquidated, with the exception of a few non-liquid securities with minimal or no market value, and the proceeds transferred to Treasury and invested.

The assets received in the liquidation process were allocated to the Judicial Retirement and Trust Funds by adhering to the specified calculations of the Retirement Funds' components described in Section 7.2 of the First Amended and Restated Memorandum of Understanding Concerning Interim Administration of Retirement Programs by and among the Treasury, D.C., D.C. Retirement Board, the D.C. Courts, and the General Services Administration (the MOU), dated as of April 2, 1999. Applying the methodology described in the MOU resulted in an allocation to the Judicial Retirement Fund of 1.9% and to the Trust Fund of 98.1% of the liquidation proceeds.

Fund Balance with Treasury

Fund Balance with Treasury represents appropriated funds remaining as of fiscal year-end from which the Office of D.C. Pensions is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law.

Investments

Pursuant to the Act and Section 130 of Division A of Public Law 105-277 (1998), the Secretary invests the portions of the Trust, Supplemental, and Judicial Retirement Funds (Retirement Funds) that are not necessary to meet current obligations, in GAS securities. These non-marketable market-based (MK) securities are Treasury securities that mirror the prices of marketable securities with similar terms, and are issued and redeemed by the Bureau of the Public Debt.

Amounts needed to meet current obligations are invested in overnight non-marketable par value GAS securities, redeemed at face value plus accrued interest.

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Investment Policy and Valuation Methods for Investments

The Office of D.C. Pensions follows Treasury fiscal investment policy guidelines. Treasury determines whether the investments should be made in MK bills, MK notes, or MK bonds. The maturities on investments range from less than one year to approximately 15 years. If amounts held in cash, overnight securities and maturing securities are inadequate to meet required outlays, investments are selected for redemption from those securities having the shortest remaining term(s) to maturity and providing the Retirement Funds with the lowest yield to maturity. Investments are valued at cost, adjusted for unamortized premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method.

Construction-In-Progress (ADP Software)

Construction-In-Progress consists of pension benefit software purchased and independent contractor costs incurred in FY 2000 to modify a new replacement pension system to better meet Treasury's and D.C.'s needs. When the software is placed in service, the Construction-In-Progress account will be transferred to ADP Software – Net and depreciated using the straight-line method over its estimated useful life.

Equipment – Net

Equipment – Net represents computer hardware purchases (net of accumulated depreciation) placed in service and used to develop the pension benefit software that is reported in Construction-In-Progress. Costs of equipment are recorded as an asset and capitalized in accordance with the following thresholds:

- Capitalize equipment acquisitions that exceed \$50,000
- Capitalize bulk purchases (a single purchase of like items in the same lot with a unit cost greater than \$5,000 and less than \$50,000) that exceed \$500,000
- Capitalize aggregate purchases (multiple purchases of items directly related to a specific project and unit cost is less than \$50,000) that exceed \$500,000

Equipment is depreciated using the straight-line method over the asset's estimated useful life, with six months depreciation taken in the first and last year.

Accounts Receivable

Accounts Receivable consists of a receivable from the D.C. Government for the District's estimated share of benefits paid during FY 2000, employee retirement contributions withheld from the judges' salaries not yet transferred to the Judicial Retirement Fund before the end of the fiscal year and foreign taxes withheld on investment income. State Street Bank and Trust

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Company has made application for a refund of the foreign taxes. No allowance for doubtful accounts has been recorded since these receivables are considered fully collectible.

Accrued Liabilities

The accompanying financial statements include certain accrued liabilities. Accrued pension benefits payable pertains, for the most part, to retirement benefits to which the recipients became entitled during the reporting period, but which, by law, are paid on the first business day of the subsequent period. Included in this accrual are amounts for refund claims that have not completed processing during the reporting period, but will be paid in the subsequent period.

Actuarial Pension Liability

The actuarial cost method used to determine costs for the Trust and Judicial Retirement Funds is the Aggregate Entry Age Normal Actuarial Cost Method. Under this funding method, the normal cost is a level percent of pay cost, which, along with the member contributions (under the Judges' plan only), will pay for projected benefits at retirement for the active plan participants. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost.

The actuarial liability is that portion of the present value of projected benefits that will not be paid by future normal costs or member contributions. The difference between this liability and the funds accumulated at the same date is referred to as the unfunded actuarial liability.

Actuarial liability is based upon assumptions made by Treasury. The assumptions used were an annual rate of investment return of 6.0% based on the securities held, salary increases at an annual rate of 3.5%, and annual inflation and cost-of-living adjustments at 2.5%.

Employee Retirement Plans

The Trust and Judicial Retirement Funds pay salaries and benefits of Treasury employees who work on the D.C. Pensions program. These employees participate in the Civil Service Retirement System (CSRS) or the Federal Employee's Retirement System (FERS). FERS was established by Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984, elected to join either FERS and Social Security or remain in CSRS.

Most employees are eligible to contribute to the Thrift Savings Plan (TSP). For employees participating in FERS, TSP accounts are automatically established and the Judicial Retirement and Trust Funds make mandatory combined contributions of one percent of base pay to the accounts. In addition, the Funds make matching contributions, ranging from one to four percent of base pay, for FERS eligible employees who contribute to their TSP accounts. The contributions are split 10% and 90% between the Judicial Retirement and the Trust Funds,

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respectively. Mandatory and matching contributions are not made to the TSP accounts established for CSRS employees pursuant to law.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, the Trust and Judicial Retirement Funds remit the employer's share of the required contributions.

The Trust and Judicial Retirement Funds do not report information pertaining to the retirement plans covering Treasury employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the U.S. Office of Personnel Management.

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Note 3: Investments in GAS Securities – Net

Investments in GAS Securities – Net as of September 30, 2000, consisted of the following (all amounts are represented in thousands):

D.C. Judicial Retirement and Survivors Annuity Fund:

	Cost	Unamortized Premium (Discount)	Investments Net	Market Value
Intragovernmental Securities				
Non-marketable Par Value	\$ 7,158	\$ -	\$ 7,158	\$ 7,158
Non-marketable Market-based	<u>74,184</u>	<u>976</u>	<u>75,160</u>	<u>74,589</u>
Total	\$ <u>81,342</u>	\$ <u>976</u>	\$ <u>82,318</u>	\$ <u>81,747</u>

Federal Supplemental D.C. Pension Fund:

	Cost	Unamortized Premium (Discount)	Investments Net	Market Value
Intragovernmental Securities				
Non-marketable Par Value	\$ 200,584	\$ -	\$ 200,584	\$ 200,584
Non-marketable Market-based	<u>632,168</u>	<u>24,769</u>	<u>656,937</u>	<u>628,595</u>
Total	\$ <u>832,752</u>	\$ <u>24,769</u>	\$ <u>857,521</u>	\$ <u>829,179</u>

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D.C. Federal Pension Liability Trust Fund:

	Cost	Unamortized Premium (Discount)	Investments Net	Market Value
Intragovernmental Securities				
Non-marketable Par Value	\$ 91,701	\$ -	\$ 91,701	\$ 91,701
Non-marketable Market-based	<u>2,907,047</u>	<u>38,623</u>	<u>2,945,670</u>	<u>2,919,813</u>
Total	\$ <u>2,998,748</u>	\$ <u>38,623</u>	\$ <u>3,037,371</u>	\$ <u>3,011,514</u>

Consolidated D.C. Pension Funds Total:

	Cost	Unamortized Premium (Discount)	Investments Net	Market Value
Intragovernmental Securities				
Non-marketable Par Value	\$ 299,443	\$ -	\$ 299,443	\$ 299,443
Non-marketable Market-based	<u>3,613,399</u>	<u>64,368</u>	<u>3,677,767</u>	<u>3,622,997</u>
Total	\$ <u>3,912,842</u>	\$ <u>64,368</u>	\$ <u>3,977,210</u>	\$ <u>3,922,440</u>

The amortization method utilized by the Retirement Funds is the effective interest method. The market value for notes and bonds was calculated using rates for September 30, 2000, as published in the Treasury Quote Sheets prepared by Treasury's Office of Market Finance. Included in this figure are total unrealized losses of \$54.8 million.

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The amortized cost of non-marketable market-based public debt securities as of September 30, 2000, by maturity date, was as follows (in thousands):

Time of Maturity	Judicial	Supplemental	Trust	Total
Less than or equal to 1 year	\$ -	\$ -	\$ 520,672	\$ 520,672
More than 1 year and less than or equal to 5 years	-	-	1,874,363	1,874,363
More than 5 years and less than or equal to 10 years	64,286	656,937	550,635	1,271,858
More than 10 years	<u>10,874</u>	<u>-</u>	<u>-</u>	<u>10,874</u>
Total	\$ <u>75,160</u>	\$ <u>656,937</u>	\$ <u>2,945,670</u>	\$ <u>3,677,767</u>

Note 4: Equipment – Net

The components of Equipment – Net as of September 30, 2000, were as follows (in thousands):

	Judicial	Trust	Total
ADP Hardware	\$ 11	\$ 100	\$ 111
Accumulated Depreciation	<u>(1)</u>	<u>(10)</u>	<u>(11)</u>
Equipment – Net	\$ <u>10</u>	\$ <u>90</u>	\$ <u>100</u>

The useful life of the ADP hardware is estimated to be five years.

Note 5: Unexpended Appropriations

Unexpended Appropriations as of September 30, 2000, are as follows (in thousands):

	Judicial	Supplemental	Trust	Total
Unobligated Available	\$ -	\$ -	\$ -	\$ -
Unavailable	-	816,100	-	816,100
Undelivered Orders	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>-</u>	\$ <u>816,100</u>	\$ <u>-</u>	\$ <u>816,100</u>

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Note 6: Administrative Expenses

Administrative expenses for the year ended September 30, 2000, are as follows (in thousands):

	Judicial	Trust	Total
Salaries and Related Benefits	\$ 127	\$ 1,128	\$ 1,255
Benefits Administration	160	1,767	1,927
Contractual Services	45	434	479
Rent	8	75	83
Noncapitalized Equipment/Software	7	66	73
Office Supplies	<u>1</u>	<u>8</u>	<u>9</u>
Total Administrative Expenses	\$ <u>348</u>	\$ <u>3,478</u>	\$ <u>3,826</u>

Included in the above expenses are amounts incurred by the Judicial Retirement and Trust Funds for intra-governmental activity totaling \$72 thousand and \$475 thousand, respectively.

Note 7: Pension Expense

Pension expense for the plan year ended September 30, 2000, includes the following components (in thousands):

	Judicial	Trust	Total
Normal Cost	\$ 3,500	\$ -	\$ 3,500
Actuarial (Gains) Losses During the Period	(3,413)	(197,369)	(200,782)
Interest on Pension Liability During the Period	<u>5,500</u>	<u>411,300</u>	<u>416,800</u>
Total Pension Expense	\$ <u>5,587</u>	\$ <u>213,931</u>	\$ <u>219,518</u>

Federal pension benefits paid during the plan year were \$ 4.6 million and \$ 405.9 million from the Judicial Retirement and Trust Funds, respectively. Of the Trust Fund's total, approximately \$4.5 million represents contribution refunds to plan participants.

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Note 8: Prior Period Adjustment

During the fiscal year ended September 30, 2000, prior period adjustments resulting in a \$38 million increase in net position were recorded in the Office of D.C. Pensions' financial statements, as shown in the accompanying *Consolidating Statement of Changes in Net Position* and summarized in the following schedule (in thousands):

Increase/(Decrease) in Net Position	Judicial	Trust	Total
Correction of Prior Year Actuarial Pension Liability	\$ 382	\$ 36,604	\$ 36,986
Correction of Contributions Refund Expense	(2)	(2,951)	(2,953)
Correction of Administrative Expenses	(8)	(1,028)	(1,036)
Correction of Unexpended Appropriations	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Total Prior Period Adjustments	\$ <u>5,372</u>	\$ <u>32,625</u>	\$ <u>37,997</u>

A summarized description of the adjustments made to correct accounting errors in prior years is provided below:

Correction of Prior Year Actuarial Pension Liability

The September 30, 1999, Actuarial Pension Liability of the Judicial Retirement Fund and the Trust Fund was overstated by approximately \$34.1 million. The actuarial liability that was recorded included a portion covering the pension benefit payments payable on October 1, 1999. These liabilities were also recorded as Accrued Pension Benefits Payable on the *Consolidating Balance Sheet*.

During FY 2000, the Office of D.C. Pensions received \$2.9 million from the D.C. Government to reimburse Treasury for the District's estimated share of retirement benefits paid by Treasury during FY 1998 and 1999. These funds had previously been recorded as benefit payments made by the Treasury. An account receivable from the D.C. Government was not recorded because the amount was not estimable. Including these payments in prior years federal benefit payments resulted in an overstatement of Pension Expense and an understatement of Net Position reported in prior period's financial statements.

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Correction of Contribution Refund Expense

During FY 2000, the Office of D.C. Pensions received an invoice from the D.C. Government for \$3.482 million in refunds paid by the D.C. Government from October 1, 1998, through May 31, 1999, on behalf of the Treasury. A liability to the D.C. Government was not recorded in FY 1999 since no amount was able to be estimated as of September 30, 1999.

Also during FY 2000, it was determined that the Actuarial Pension Liability in the Trust Fund includes a projection of contribution refunds. At September 30, 1999, contribution refunds of \$529 thousand were accrued resulting in an overstatement of Net Cost and an understatement of Net Position as of last year end.

Correction of Administrative Expenses

During FY 2000, the Office of D.C. Pensions received invoices from the D.C. Government for \$1.484 million of administrative expenses incurred by the D.C. Government in administering the retirement benefit programs on behalf of the Treasury. Of this amount, approximately \$1.036 million was for services rendered during FY 1999 that were not recorded as a liability at September 30, 1999.

Correction of Unexpended Appropriations

During FY 1998, the D.C. Judicial Retirement Fund received a \$5 million appropriation. This appropriation was recorded as an Unexpended Appropriation in the Judicial Retirement Fund. During FY 2000, it was determined that the appropriation was received as an expenditure transfer-in from another federal entity and thus should be included in cumulative results of operations.

Note 9: Contingencies

At September 30, 2000, a contingent liability of approximately \$166 thousand was accrued for a probable settlement in the case of *Mason v. District of Columbia*. In this case, the plaintiffs contended that 11 deceased police officers were entitled to, but did not receive, certain benefit payments. As of September 30, 2000, the District's Office of Corporation Counsel was renegotiating, at Treasury's request, a settlement agreement it had reached with the plaintiffs without Treasury's knowledge or input in order to provide Treasury with certain legal protections regarding the finality of the settlement agreement.

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Note 10: Plan Administration and Description

Police Officers' and Firefighters' Retirement Plan

Eligibility

A participant becomes a member when he/she starts work as a police officer or firefighter in D.C. Police cadets are not eligible to join the Plan. A participant's contribution equals 7% (or 8% for employees hired on or after November 10, 1996) of his/her basic pay. Employee contributions are made to the plan adopted by the District of Columbia on October 1, 1997. The Trust Fund does not receive any employee or employer contributions.

Members Hired Before February 15, 1980

Members are eligible for optional retirement with full benefits at any age with 20 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 12 months) times years of departmental service up to 20 years, plus 3% of average pay times years of departmental service over 20 years, plus 2.5% of average pay times credited years of service, subject to a maximum benefit of 80% of final pay. Members terminated after five years of police or fire service are entitled to a deferred benefit beginning at age 55.

Members with service-related disabilities receive an annuity equal to 2.5% of average pay times total years of departmental service, subject to a minimum benefit of 66.67% of average pay and subject to a maximum benefit of 70% of average pay.

Other members with non-service related disabilities with more than 5 years of departmental service receive an annuity equal to 2% of average pay times total years of departmental service, subject to a minimum benefit of 40% of average pay and subject to a maximum benefit of 70% of average pay.

Employees (not beneficiaries) who retired prior to February 15, 1980, receive the same percentage increase as active employees' salary increases. Members retired after February 15, 1980, receive an increase each March based on the annual change in the Consumer Price Index (All Urban Consumers) from December to December.

Members Hired After February 15, 1980 and Before November 10, 1996

Members are eligible for optional retirement with full benefits at age 50 with at least 25 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 36 months divided by three) times years of departmental service up to 25 years, plus 3% of average pay times years of departmental service over 25 years, plus 2.5% of average pay times credited years of service, subject to a maximum benefit of 80% of final pay. Members terminated after five years of police or fire service are entitled to a deferred pension beginning at age 55.

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Members with service related disabilities, receive 70% of final pay times percentage of disability, subject to a minimum benefit of 40% of final pay.

Other members with non-service related disabilities with more than 5 years of departmental service receive 70% of final pay times percentage of disability, subject to a minimum benefit of 30% of final pay.

Members Hired on or After November 10, 1996

Members are eligible for retirement at age 60 or with 25 years of departmental service and no age requirement. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 36 months divided by three) times years of departmental service, subject to a maximum benefit of 80% of basic pay.

Members with service related disabilities receive 70% of final pay times percentage of disability, subject to a minimum benefit of 40% of final pay.

Other members with non-service related disabilities with more than 5 years of departmental service receive 70% of final pay times percentage of disability, subject to a minimum benefit of 30% of final pay.

Participant Data

For the September 30, 2000, actuarial valuation, the participants are as follows:

Active members	4,131
Retirees and beneficiaries	7,811
Vested terminated members	<u>0</u>
Total	<u><u>11,942</u></u>

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Teachers' Retirement Plan

Eligibility

Permanent, temporary, and probationary teachers and certain other employees of the D.C. public day schools become members automatically on their date of employment. The basic retirement contribution equals 7% (or 8% for teachers hired on or after November 16, 1996) of a participant's annual pay minus any pay received for summer school. Employee contributions are made to the plan adopted by the District of Columbia on October 1, 1997. The Trust Fund does not receive any employee or employer contributions.

Voluntary retirement is available for teachers with 5 years of school service who have attained age 62; age 60 with 20 years of total service; age 55 with 30 years of total service; and at any age with 30 years of total service, if hired by the school system on or after November 16, 1996.

The annuity is equal to 1.5% of three-year average pay times years of service up to five years, plus 1.75% of average pay times years of service between five and ten years, plus 2% of average pay times years of service over ten years. For participants hired on or after November 16, 1996, the annuity is equal to 2.0% of three-year average pay times all years of service.

Participants who have five years of school service and who have a physical or mental disability that prevents them from performing their job, may be eligible for disability retirement. Disability benefits are based on the voluntary retirement benefit subject to a minimum of the lesser of 40% of average pay and the benefit the member would receive projecting service to age 60.

Employees who are involuntarily separated other than for misconduct or delinquency and who have 5 years of school service, may be eligible for retirement at any age with 25 years of service or at age 50 with 20 years of service. The voluntary retirement benefit is reduced 1/6% per month (2% per year) if at the time of its commencement the participant is under the age of 55.

All participants receive an increase each March based on the annual change in the Consumer Price Index (all items – U.S. City average) from December to December.

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Participant Data

For the September 30, 2000, actuarial valuation, the participants eligible to receive a Federal benefit are as follows:

Active members	4,387
Retirees and beneficiaries	5,273
Vested terminated members	<u>25</u>
Total	<u>9,685</u>

Judges Retirement Plan

Eligibility

A participant becomes a member of the Plan when he/she becomes a judge of the D.C. Court of Appeals or the Superior Court or when he/she becomes the Executive Officer of the District Court System. A participant's contribution equals 3.5% of his/her annual salary plus an optional 3.5% of annual salary for survivors' benefits. The Judicial Retirement Fund receives the employee contributions.

Members are eligible for normal retirement with full benefits after age 50 with 20 years of judicial service, after age 60 with 10 years of judicial service (7 years of judicial service if the Executive Officer), or age 70. The annuity is equal to the basic salary at retirement times the ratio of total years of judicial service to 30, plus 1.5% of basic pay times credited service up to 5 years, plus 1.75% of basic pay times credited service between 5 years and 10 years, plus 2% of basic pay times credited service over 10 years, subject to a maximum benefit of 80% of salary.

A judge electing to retire with at least 10 years (at least 7 years if the Executive Officer) but less than 20 years of judicial service at age 55 shall receive an annuity based on the above formula, reduced by 1/12% per month or fraction of a month (1% per year) for each year he/she is under age 60 at retirement. Judges and the Executive Officer are eligible for disability benefits after 5 years of judicial service if they have a physical or mental disability that seriously interferes with the proper performance of judicial duties. The annuity to be received under a disability retirement will be a normal benefit subject to a minimum benefit of 50% of salary. Annuities are increased in January for changes in the cost of living on the same basis as provided for in the Federal Civil Service Retirement System (CSRS). All pensioners receive the same increase granted to CSRS retirees.

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Participant Data

For the September 30, 2000, actuarial valuation, the participants eligible to receive a Federal benefit are as follows:

Active member	62
Retirees and beneficiaries	63
Vested terminated members	<u>0</u>
Total	<u>125</u>

Judges Annuity Benefits Calculation Overpayments

Due to errors by D.C. during FY 2000 and prior years, the majority of retired judges and survivors were overpaid. These overpayments were primarily the result of the incorrect application by D.C. of the statutory provisions regarding cost-of-living adjustments (COLA).

Treasury's Office of the General Counsel determined in FY 2000 that, according to the statutory requirements, the initial COLA for judges retiring after December 6, 1980, should be prorated based on the number of months the retiree was collecting an annuity for that first year. Treasury's Office of the General Counsel also determined that retirement annuities for judges retiring after 1980 should not be calculated using a COLA *look back*. COLA *look back* is described broadly as providing a retiring judge the higher of two calculations: the "earned" rate – based on actual service and salary at the time of retirement, or a "hypothetical benefit" – obtained by calculating the judge's retirement benefit as of one day before the preceding COLA and then increasing the benefit by that COLA. The COLA *look back* provision was repealed effective January 20, 1981.

Until September 2000, D.C. continued to calculate judges' retirement salaries by adding a *look back* COLA to their benefits and without proration of the initial COLA. In September 2000, Treasury informed the D.C. Office of Pay and Retirement Services that Treasury determined, upon the advice of the Office of the General Counsel, that the initial retirement salary of a retired judge must be calculated without reference to the COLA *look back*. In addition, the first COLA for which a retired judge is eligible must be prorated in accordance with the formula in 5 U.S.C. 8340(c). Treasury also informed D.C. that no benefit adjustments based upon Treasury's determinations regarding COLA *look back* or initial COLA proration should be made for judges who retired prior to 2000 until further notice, which would be forthcoming after Treasury reviewed the facts for each judge.

Treasury estimates total overpayments from 1991 through 2000 to be \$1.7 million, of which benefit overpayments in FY 2000 are estimated to be \$228 thousand. Because there is no decision on the amount that Treasury may attempt to collect, a reasonable estimate of the net realizable receivable for overpayments cannot be established. Management believes that the effects of these overpayments do not have a material impact on the financial statements.

**DEPARTMENT OF THE TREASURY
OFFICE OF D.C. PENSIONS
SUPPLEMENTAL INFORMATION**

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Office of D.C. Pensions
Supplemental Information (unaudited)
Consolidating Intra-Governmental Balances
As Of And For the Year Ended September 30, 2000
(In Thousands)

Department	Intra-Governmental Balance Description	DC Judicial Retirement and Survivors Annuity Fund	Federal Supplemental DC Pension Fund	DC Federal Pension Liability Trust Fund	Consolidated DC Pension Funds Total
Assets:					
Treasury	Fund Balance with Treasury	\$ 1	\$ -	\$ 7	\$ 8
Treasury	Interest Receivable from GAS Securities	1,188	9,375	48,766	59,329
Treasury	Investments in GAS Securities, Net	82,318	857,521	3,037,371	3,977,210
		<u>\$ 83,507</u>	<u>\$ 866,896</u>	<u>\$ 3,086,144</u>	<u>\$ 4,036,547</u>
Liabilities:					
Treasury	Accounts Payable	\$ 19	\$ -	\$ 125	\$ 144
OPM	Accounts Payable	10	-	90	100
SSA	Accrued Payroll & Benefits	-	-	2	2
OPM	Accrued Payroll & Benefits	1	-	5	6
		<u>\$ 30</u>	<u>\$ -</u>	<u>\$ 222</u>	<u>\$ 252</u>
Revenues:					
Treasury	Interest Earned from GAS Securities	\$ 4,631	\$ 34,390	\$ 173,471	\$ 212,492
OPM	Imputed Financing Sources	5	-	46	51
		<u>\$ 4,636</u>	<u>\$ 34,390</u>	<u>\$ 173,517</u>	<u>\$ 212,543</u>
Expenses:					
Treasury	Operating Expenses	\$ 43	\$ -	\$ 215	\$ 258
Agriculture	Contractual Services	-	-	-	-
OPM	Contractual Services	10	-	90	100
OPM	Employee Benefits Expense	10	-	88	98
SSA	Employee Benefits Expense	4	-	36	40
OPM	Imputed Costs (OPEB)	5	-	46	51
		<u>\$ 72</u>	<u>\$ -</u>	<u>\$ 475</u>	<u>\$ 547</u>

Investment Information

Investment Policies

The Balanced Budget Act of 1997, as amended (the Act), authorized the establishment of three funds to provide for the needs of the D.C. Pensions program – the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund), the Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund), and the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund). The Funds are maintained by the Treasury's Bureau of the Public Debt (BPD), and participate in BPD's Federal Investment program. Treasury's Office of Market Finance developed the investment policies that the Office of D.C. Pensions (the Office) has followed since April 1998. At the end of FY 2000, the Office was preparing to assume responsibility for investment policy and security selection from the Office of Market Finance.

Consistent with the Act, the investment policies followed by the Office ensure that cash is available from maturing securities as needed for benefit payments and administrative expenses. For all three Funds, maturities are selected to avoid the need for early redemption of securities. Contingencies are provided for through maintenance of liquidity balances funded by regular interest payments, scheduled maturities in amounts slightly above actuarial projections of benefits and expenses, and, in the Judicial Retirement Fund, regular payroll contributions.

All fund investments are in market-based special nonmarketable Government Account Series (GAS) securities. Amounts needed to meet current obligations are invested in one-day certificates, redeemed at face value plus accrued interest. The Federal Reserve Bank of New York determines the overnight investment rate on a daily basis, using rates on overnight repurchase agreements against general U.S. collateral.

The coupon rates and maturities of GAS notes and bonds are identical to marketable notes and bonds Treasury has issued to the public. When the Office decides to invest in a GAS note or bond, BPD determines a purchase price based on the mean between the bid and asked prices at which that security's marketable counterpart is trading in the Treasury securities market. Thus, each fund holds a portfolio of Treasury securities similar to a portfolio that a private investor could assemble using publicly traded Treasury marketable securities. If the Office decides to redeem a security prior to its' maturity date, BPD would determine the proceeds based upon the then-current bid price for that security's counterpart in the market.

Under the Federal Investment GAS program, the available market-based securities include one-day certificates, which Treasury offers to meet the short-term cash management needs of trust funds. The availability of other securities is a function of past issuance of securities to the public. Currently, Treasury issues on a regular basis 13-week, 26-week and 52-week bills, 2-, 5-, and 10-year notes, and 30-year bonds, so these approximate maturities are generally available for investment. With the passage of time,

and because Treasury has issued securities with various other maturities in the past, securities with other maturities also may be available for investment.

The investment fund policies are summarized below. The complete portfolio of each fund follows that discussion.

Trust Fund

Consistent with the Act, the Trust Fund was established to pay monthly benefits to retired police officers, firefighters, and teachers, and administrative expenses associated with these retirement plans. Treasury follows a “ladder” approach, selecting securities such that the amounts of maturing securities equal or exceed projected benefit and administrative payments in each time period. Currently, the Trust Fund portfolio consists of one-day certificates, notes maturing at month-end from September 2000 to June 2003, notes maturing mid-quarter thereafter until May 2006, and a note maturing in October 2006.

There are gaps in the monthly maturity schedule from April through September 2002 and in the quarterly schedule in July 2006. The Office is planning to direct interest and maturing principal in excess of short-term spending needs to fill the gaps and then extend the ladder beyond October 2006, as funds permit.

Maturing investments in the Trust Fund are in amounts sufficient to cover benefit payments in accordance with the latest actuarial estimates by Deloitte and Touche (D&T) and administrative expense estimates by Treasury. D&T conducted the actuarial valuations for the funds as of October 1, 1999, and October 1, 2000. The valuation results represent an important input to security selection decisions. During FY 2000, cash outlays for benefits and expenses were approximately \$35 million per month. Benefit payments and administrative expenses are expected to rise to approximately \$42 million per month by FY 2008.

The policy established with initial Trust Fund investments was to invest \$38 million to mature each month during FY 1999 based on actuarial estimates. The policy was to add \$1 million to the amount maturing each month (\$39 million during FY 2000) at the beginning of each fiscal year. D&T projects that the Trust Fund will have sufficient assets to pay benefits and administrative expenses until early in FY 2009. We expect to continuously extend the ladder accordingly.

As noted above, investment opportunities are limited to the maturity schedule of outstanding marketable Treasury securities. Securities are not consistently available with maturities that match the D.C. Pensions Program’s liability schedule. In pursuing the ladder approach, where securities are not available, the Office will generally invest an appropriately larger amount in available securities on the basis of the number of months of benefits (payable on the first of each month) and expenses to be covered before the next available security matures. In selecting securities, the Office may also consider the coupon rates of available securities, and their corresponding prices, and call provisions that exist on some outstanding Treasury bonds.

The Trust Fund currently maintains a liquidity balance of approximately three months of average outlays. As noted above, the Office has ensured that the face values of maturing securities are greater than actuarial projections of benefits and expenses, providing an additional cushion for unexpected developments. In addition, monthly interest payments, which are used to extend the ladder, can be redirected to liquidity needs if necessary.

Supplemental Fund

Consistent with the Act, the Supplemental Fund will be used to pay benefits to retired police officers, firefighters and teachers after the Trust Fund has been depleted. The Act requires Treasury to make an annual payment from the General Fund of the Treasury to the Supplemental Fund to amortize (a) the original unfunded liabilities of the retirement programs for police officers, firefighters and teachers over 30 years, (b) the net experience gains or losses over 10 years, and (c) any other changes in actuarial liabilities over 20 years; and to fund covered administrative expenses for the year. The unfunded liabilities of the police officers, firefighters and teachers retirement plans, which are obligations of the Trust and Supplemental Funds were estimated at \$3.53 billion as of October 1, 2000.

The annual deposits from the General Fund are made in September of each year and are invested in GAS securities with maturities consistent with the expected pension liability schedules. As of September 30, 2000, two notes have been purchased with the FY 1998 and 1999 deposits. Approximately \$295 million is scheduled to mature on August 15, 2007, and approximately \$337 million is scheduled to mature on May 15, 2008. The FY 2000 deposit of \$181.7 million was made on September 27, 2000. This deposit was invested in overnight maturities together with the existing balance in one-day certificates resulting from interest receipts, pending the assumption of investment policy and security selection responsibilities by the Office of D.C. Pensions from the Office of Market Finance. The Office expects to reinvest the amount currently invested in one-day certificates in longer-term securities early in FY 2001.

The Office's objective is to effect a seamless transition from the Trust Fund to the Supplemental Fund in making benefit payments for the police officers, firefighters and teachers retirement plans. The Supplemental Fund will continue the ladder approach followed by the Trust Fund, modified as necessary by the availability of appropriate securities. The Office intends to utilize the balance of the market-based special note schedule, currently through August 2010, to cover projected benefits and administrative expenses. Beyond 2010, bond maturities are less frequent. Security selection may be influenced by callability and high price/premium considerations.

Interest receipts may be temporarily invested in one-day certificates. As we approach the time when the assets of the Supplemental Fund will be needed to pay benefits, the Office of D.C. Pensions may consider maintaining a balance in one-day certificates in the Supplemental Fund to meet any contingencies that may arise.

Judicial Retirement Fund

Consistent with the Act, the Judicial Retirement Fund was established to pay monthly benefits to retired judges, and associated administrative expenses, and to receive amounts deposited by judges or deducted from judges' pay. The Act requires Treasury to make an annual payment from the General Fund of the Treasury to the Judicial Retirement Fund to amortize (a) the original unfunded liabilities of the retirement program for judges over 30 years, (b) the net experience gains or losses over 10 years, and (c) any other changes in actuarial liabilities over 20 years; to fund covered administrative expenses for the year; and to pay the normal cost not covered by employee contributions. The unfunded liabilities of the judges' retirement plan were estimated at \$19.4 million as of October 1, 2000.

The current investment portfolio consists of one-day certificates and four market-based special notes maturing from February 2008 to May 2009, and one bond maturing August 2013 (callable beginning in August 2008). During FY 2000, cash outlays for benefits and expenses were approximately \$435,000 per month. Benefit payments and administrative expenses are expected to rise to approximately \$700,000 per month by FY 2008.

Almost all of the Judicial Retirement Fund's assets are invested in longer term securities. Regular payroll contributions and quarterly interest receipts are projected to be adequate to pay the majority of benefits and expenses for the next several years (85 to 90% currently). Therefore, the Office expects to gradually construct a ladder with maturities in FY 2010 and beyond, as modified by the availability of appropriate securities. Investment amounts will be consistent with actuarial projections.

Unlike with the Trust Fund, the liquidity balance in the Judicial Fund will be needed to cover monthly outlays for at least the next several years. Interest receipts and contributions will be invested in one-day certificates to cover near term outlays and contingencies. Annual deposits from the General Fund will be used primarily to extend the ladder. Portions of the annual deposits may be added to the liquidity balance, however, to ensure adequate funding over the ensuing months. The FY 2000 deposit of approximately \$5.5 million was made on September 27, 2000. This deposit was invested in one-day certificates together with the existing liquidity balance, pending the assumption of investment policy and security selection responsibilities by the Office of D.C. Pensions from the Office of Market Finance. The Office of D.C. Pensions expects to reinvest a portion of the amount currently invested in one-day certificates in longer-term securities early in FY 2001.

Investment Holdings of the D.C. Pension Funds

<u>TRUST FUND</u>			
<u>RATE</u>	<u>MATURITY</u>	<u>PAR VALUE</u> <u>(\$000)</u>	<u>MARKET</u> <u>VALUE (\$000)</u>
<u>CERTIFICATES</u>			
6.520 %	10/02/2000	\$91,701	\$91,701
<u>NOTES</u>			
4.500%	09/30/2000	\$39,000	\$38,727
4.000 %	10/31/2000	\$40,000	\$ 39,700
4.625 %	11/30/2000	\$40,000	\$ 39,692
4.625 %	12/31/2000	\$40,000	\$ 39,664
5.250 %	01/31/2001	\$40,000	\$ 39,676
5.000 %	02/28/2001	\$40,000	\$ 39,656
4.875 %	03/31/2001	\$40,000	\$ 39,632
6.250 %	04/30/2001	\$40,000	\$ 39,720
6.500 %	05/31/2001	\$40,000	\$ 40,008
6.625 %	06/30/2001	\$40,000	\$ 40,020
6.625 %	07/31/2001	\$40,000	\$ 40,028
6.500 %	08/31/2001	\$40,000	\$ 40,020
6.375 %	09/30/2001	\$40,000	\$ 40,008
6.250 %	10/31/2001	\$41,000	\$ 40,717
5.875 %	11/30/2001	\$41,000	\$ 40,664
6.125 %	12/31/2001	\$41,000	\$ 40,705
6.250 %	01/31/2002	\$41,000	\$ 41,008
6.250 %	02/28/2002	\$41,000	\$ 41,016
6.625 %	03/31/2002	\$41,000	\$ 41,086
5.750 %	10/31/2002	\$42,000	\$ 41,651
5.750 %	11/30/2002	\$42,000	\$ 41,643
5.625 %	12/31/2002	\$42,000	\$ 41,614
5.500 %	01/31/2003	\$42,000	\$ 41,290
5.500 %	02/28/2003	\$42,000	\$ 41,286
5.500 %	03/31/2003	\$42,000	\$ 41,286
5.750 %	04/30/2003	\$42,000	\$41,647
5.500 %	05/31/2003	\$42,000	\$ 41,278
5.375 %	06/30/2003	\$84,000	\$ 82,480
5.250 %	08/15/2003	\$126,000	\$ 123,556
4.250 %	11/15/2003	\$129,000	\$ 122,653
5.875 %	02/15/2004	\$129,200	\$ 128,283
5.250 %	05/15/2004	\$129,000	\$ 125,504
7.250 %	08/15/2004	\$129,000	\$ 134,405

<u>TRUST FUND</u>			
<u>RATE</u>	<u>MATURITY</u>	<u>PAR VALUE</u> <u>(\$000)</u>	<u>MARKET</u> <u>VALUE (\$000)</u>
<u>NOTES (Continued)</u>			
7.875 %	11/15/2004	\$133,000	\$142,337
7.500 %	02/15/2005	\$133,000	\$ 141,033
6.500 %	05/15/2005	\$133,000	\$ 135,899
6.500 %	08/15/2005	\$133,000	\$ 135,913
5.875 %	11/15/2005	\$137,000	\$ 137,027
5.625 %	02/15/2006	\$137,000	\$ 134,630
6.875 %	05/15/2006	\$136,936	\$ 142,660
6.500 %	10/15/2006	\$136,911	\$ 139,991
TOTAL		\$2,998,748	\$3,011,514

<u>SUPPLEMENTAL FUND</u>			
<u>RATE</u>	<u>MATURITY</u>	<u>PAR VALUE</u> <u>(\$000)</u>	<u>MARKET</u> <u>VALUE (\$000)</u>
<u>CERTIFICATES</u>			
6.520 %	10/02/2000	\$ 200,584	\$ 200,584
<u>NOTES</u>			
6.125 %	08/15/2007	\$ 294,756	\$ 297,763
5.625 %	05/15/2008	\$ 337,412	\$ 330,832
<u>TOTAL</u>		\$ 832,752	\$ 829,179

<u>JUDICIAL RETIREMENT FUND</u>			
<u>RATE</u>	<u>MATURITY</u>	<u>PAR VALUE</u> <u>(\$000)</u>	<u>MARKET</u> <u>VALUE (\$000)</u>
<u>CERTIFICATES</u>			
6.520 %	10/02/2000	\$ 7,158	\$ 7,158
<u>NOTES</u>			
5.500 %	02/15/2008	\$ 19,076	\$ 18,529
5.625 %	05/15/2008	\$ 16,281	\$ 15,964
4.750 %	11/15/2008	\$ 15,000	\$ 13,828
5.500 %	05/15/2009	\$ 15,790	\$ 15,329
<u>BONDS</u>			
12.000 %	08/15/2013	\$ 8,037	\$ 10,940
<u>TOTAL</u>		\$ 81,342	\$ 81,748

Note: The par values of securities listed above do not include the net balances of unamortized premiums and discounts totaling approximately \$38.6 million for the Trust Fund, \$24.8 million for the Supplemental Fund, and \$1.0 million for the Judicial Retirement Fund.

Actuarial Information

Asset Valuation Method

The actuarial value of assets is the amortized cost value of assets. The assets are invested in nonmarketable public debt securities issued by Treasury.

Funding Methods

The funding method for the Police Officers and Firefighters' Retirement Plan and the Teachers' Retirement Plan is the Entry Age Normal Method (EAN). EAN is a method under which the present value of projected benefits of each employee is allocated on a level basis over the service of the employee between entry age and assumed exit age. However, since no participant is accruing future Federal benefit service credit, this method is numerically equivalent to the present value of benefits. The actuarial liability of the Plans as a whole is the sum of the present value of each participant's expected benefit payment stream.

Treasury is required to make an annual payment from the General Fund of the Treasury to the Supplemental Fund to amortize (a) the original unfunded liabilities of the retirement programs for police officers, firefighters and teachers over 30 years, (b) the net experience gains or losses over 10 years, and (c) any other changes in actuarial liabilities over 20 years; and to fund covered administrative expenses for the year. The normal cost not covered by employee contributions is paid by the District of Columbia into the District of Columbia Retirement Fund under provisions of the District's Replacement Plan. Employee contributions are paid into the District of Columbia Retirement Fund.

The funding method for the Judges' Retirement Program is the Entry Age Normal (EAN) method. Treasury is required to make an annual payment from the General Fund of the Treasury to the Judicial Retirement Fund to amortize (a) the original unfunded liabilities of the retirement program for judges over 30 years, (b) the net experience gains or losses over 10 years, and (c) any other changes in actuarial liabilities over 20 years; to fund covered administrative expenses for the year; and to pay the normal cost not covered by employee contributions. Employee contributions are paid into the Judicial Retirement Fund.

Actuarial Assumptions

Economic Assumptions

The economic assumptions have been recommended by the Office of Economic Policy at the Department of the Treasury. While the annual increase in cost of living and rate of future salary increase assumptions for the FY 2000 valuation have remained the same as the FY 1999 valuation, the annual rate of investment return has been increased to 6.0% (previously 5.5%).

1. Annual Rate of Investment Return: 6.00%
2. Annual Increase in Cost of Living: 2.50%
3. Rates of Salary Increases for Liabilities: 3.50%

Demographic Assumptions

Rates of mortality for police and firefighters are based on the 1994 Uninsured Pension (UP-94) Mortality Table published by the Society of Actuaries with ages set forward 3 years for active members and 2 years for retired members.

Rates of mortality for teachers are based on the UP-94 Mortality Table with ages set forward 1 year for active members.

Rates of mortality for judges are based on the UP-94 Mortality Table with ages set forward 2 years for active judges and 1 year for retired judges.

Sample mortality rates for the plans follow:

Numbers of deaths per 10,000 members at selected ages:

	Active Police and Firefighters UP94 (+3)		Retired Police and Firefighters/ Active Judges UP94 (+2)		Retired Judges/ Active Teachers UP94 (+1)		Retired Teachers UP94	
Age	Male	Female	Male	Female	Male	Female	Male	Female
35	10	6	10	6	9	6	9	5
40	15	9	14	9	12	8	12	8
45	23	13	20	12	19	11	17	10
50	39	21	35	19	31	17	28	15
55	68	36	60	31	53	28	48	25
60	123	72	109	63	97	55	86	48
65	214	127	194	116	175	104	156	93

Rates of withdrawal, disablement and retirement are based on a study conducted by the D.C. Retirement Board's actuarial firm, Milliman & Robertson, as of February 1997.

Schedule of Active Member Valuation Data

Plan	Year Ended	Number of Members	Annualized Covered Payroll (in thousands)	Average Annual Pay	% Increase in Average Pay
Police Officers	6/30/2000	2,970	\$ 152,100	\$ 51,200	4.1%
	6/30/1999	3,135	154,200	49,200	
Firefighters	6/30/2000	1,161	\$ 58,900	\$ 50,800	4.1%
	6/30/1999	1,158	56,500	48,800	
Teachers	6/30/2000	4,387	\$ 243,100	\$ 55,400	13.8%
	6/30/1999	4,881	237,700	48,700	
Judges	6/30/2000	62	\$ 8,800	\$ 142,400	3.5%
	6/30/1999	67	9,200	137,600	
Total	6/30/2000	8,580	\$ 462,900	\$ 54,000	9.1%
	6/30/1999	9,241	457,600	49,500	

Schedule of Retirees and Beneficiaries

Plan	Year Ended	Year-end Total	Annual Federal Benefit Payments (in thousands)	% increase in Annual Payments	Average Annual Payments
Police Officers	6/30/2000	5,756	\$ 183,100	4.9%	\$ 31,800
	6/30/1999	5,591	174,600		31,200
Firefighters	6/30/2000	2,055	\$ 74,300	4.5%	\$ 36,200
	6/30/1999	1,986	71,100		35,800
Teachers	6/30/2000	5,273	\$ 156,300	5.3%	\$ 29,600
	6/30/1999	5,110	148,500		29,100
Judges	6/30/2000	63	\$ 5,000	8.7%	\$ 78,900
	6/30/1999	62	4,600		74,600
Total	6/30/2000	13,147	\$ 418,700	5.0%	\$ 31,800
	6/30/1999	12,749	398,800		31,300

Schedule of Retirees and Beneficiaries by Type of Benefit by Plan

As of June 30, 2000

Plan	Number of Annuitants	Type of Retirement		
		Service	Survivor	Disability
Police Officers	5,756	3,096	1,233	1,427
Firefighters	2,055	914	521	620
Teachers	5,273	4,290	441	542
Judges	63	45	17	1
Total	13,147	8,345	2,212	2,590

Schedule of Federal Benefit Payments by Type of Benefit by Plan

(Dollar values expressed in thousands)

Plan	Year Ended	Type of Retirement			Total
		Service	Survivor	Disability	
Police Officers	6/30/00	\$ 114,000	\$ 22,400	\$ 46,700	\$ 183,100
	6/30/99	108,500	20,300	45,800	174,600
Firefighters	6/30/00	\$ 40,800	\$ 10,700	\$ 22,800	\$ 74,300
	6/30/99	38,500	9,600	23,000	71,100
Teachers	6/30/00	\$ 137,500	\$ 6,300	\$ 12,500	\$ 156,300
	6/30/99	131,000	5,500	12,000	148,500
Judges	6/30/00	\$ 4,200	\$ 700	\$ 100	\$ 5,000
	6/30/99	3,900	600	100	4,600
Total	6/30/00	\$ 296,500	\$ 40,100	\$ 82,100	\$ 418,700
	6/30/99	281,900	36,000	80,900	398,800

Schedule of Additions by Source

(Dollar values expressed in thousands)

Fund	Fiscal Year Ended	Transfer of Assets	Government Contributions	Employee Contributions
Trust Fund	9/30/00			
	9/30/99	\$3,400,000		
Supplemental Fund	9/30/00		\$ 181,700	
	9/30/99		278,400	
	9/30/98		356,000	
Judicial Fund	9/30/00		\$ 5,500	\$ 700
	9/30/99		5,800	600
	9/30/98		5,000	600

Analysis of Financial Experience

Gains/(Losses) in Accrued Liability During Years Ended September 30,
Resulting From Differences Between Assumed Experience and Actuarial Experience
(Expressed in Thousands)

Police Officers and Firefighters Retirement Program and Teachers Retirement Program

Type of Activity	Gain/(Loss) for the Fiscal Years Ending September 30,	
	1999	2000
Combined Assets Experience	\$ 480,500	(1,800)
Combined Liability Experience	248,600	(281,700)
Gain/(Loss) During Year from Financial Experience	\$ 729,100	(283,500)
Non-Recurring items *	-	254,500
Composite Gain/(Loss) During Year	\$ 729,100	(29,000)

Judges Retirement Program

Type of Activity	Gain/(Loss) for the Fiscal Years Ending September 30,	
	1999	2000
Combined Assets Experience	\$ 8,500	200
Combined Liability Experience	(1,400)	(2,100)
Gain/(Loss) During Year from Financial Experience	\$ 7,100	(1,900)
Non-Recurring Items *	-	6,900
Composite Gain/(Loss) During Year	\$ 7,100	5,000

* Annual rate of investment return increased from 5.5% to 6.0% for October 1, 2000 valuation